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letters TO THE EDITOR

Challenge invites your comments. Address letters to Challenge, 475 Fifth Avenue, New York 17, N. Y.

Dr. Slichter dissents

•Thank you very much for the copy of CHALLENGE containing various articles on inflation. I have looked it over with interest.

I read the sketch that it contains about me. I do not think I am competent to judge the accuracy of most of the things that are said about me in this sketch. On one point, however, I wish to take exception. The author describes me as "gentle." I do not think that I am gentle, and I do not regard this as an accurate statement. I have always been independent in my views, and I have never hesitated to take a stand that was unfashionable at the moment. I think that I have been forthright in the stands that I have taken and that I have never pulled my punches—though I have tried to be fair. I don't like being called gentle, and I don't think that people with whom I have argued would agree that I have handled them gently.

SUMNER H. SLICHTER

Cambridge, Mass.

For nonpartisan views

•I would like to see more nonpartisan views on labor's demands, as to their effect on small businesses and small stockholders, and the possibilities of a stockholders' union.

EARL F. CORRELL

Centralia, Ill.

A grand conspiracy?

•I find your magazine educational and stimulating. However, I should like to see treated several facets which are practically never mentioned in any publication.

(1) What would happen to the U.S. economy if the government would pay all its debts and redeem all of its bonds and operate continuously without any deficit?

(2) Could our economic system operate on a stable basis without continual expansion; with a stable population; with a constant level of consumption?

(3) Is it necessary under our system to have continual or recurring mass wastage of labor and material? Why do we have prosperity *only* during and after a war?

(4) Is it possible to rationalize our ideology of "free enterprise" and to correlate the ideals to the actual performance and practice? It would then seem improper to allow any privilege, subsidy or protection to any group or phase of business. Should not the only concern of government with economics

be protection of property, criminal law and the maintenance of a stable money system?

I am firmly convinced that our system is better than socialism or communism; but what is it really?

I think that these problems all can be solved. But they will not be solved if they are not even recognized. Is there a grand conspiracy of silence and ignorance?

RALPH P. LORER
Spokane, Wash.

There is no "conspiracy" at CHALLENGE *where reader Lorer's questions are discussed. As far as question 1 is concerned, the U.S. government has, of course, always paid its debts (although it has often done this by incurring fresh debts.) Question 2 is unanswerable, for it assumes not only a stable population which, while possible, is unlikely in the near future, but a limit to man's unlimited desires. Questions 3 and 4 are indeed basic, and the future of the American free enterprise system depends upon our ability to answer them affirmatively.—Ed.*

Informative and helpful

•As a student of economics and sociology at Calvin College, Grand Rapids, Mich., I find your magazine very informative and helpful. I especially like it because you do not treat economics as a purely scientific or theoretical thing, but also show its applications in related fields. Of course, your articles dealing with the theoretical side of economics are very much appreciated, too. CHALLENGE gives a well-rounded picture of economics in relation to its historical background, applications today, and in regard to related social sciences. In addition, you have put this all into a very attractive layout which makes it all the more readable.

Perhaps you would like readers to contribute helpful criticisms for improvement of your magazine, but I am so happy with it I can't say anything but good about it.

I think every student of economics should read CHALLENGE.

WILLIAM M. DEROO
Grand Rapids, Mich.

One man's opinion

•I would appreciate it very much if you would cancel my subscription to CHALLENGE, for I have yet to find a single challenging thought, or, for that matter, any news or valid economic points that I have not seen in my regular reading.

In my judgment, CHALLENGE is edited for people who know little or nothing about economics, or life as it really is lived in the U.S.A. we have today.

LARSON D. FARRAR
Washington, D. C.

Ecstatic reader

•My subscription has just expired. Don't stop this magazine! I have enjoyed CHALLENGE from its inception. Therefore, I am a charter subscriber. In fact, after I finish with my copy I give it to the Library of the University of Toledo. They very much appreciate your magazine and they have it bound at the end of a volume.

JOHN L. HEDDE
South Rockwood, Mich.

Appropriate title

•CHALLENGE is certainly an appropriate title. It makes me really *think* more than any periodical I now read.

TERRY K. THOMPSON
Milwaukee, Wis.

a personal note

from the editor

another recession—another trial for free enterprise

THE CURRENT RECESSION in the domestic economy gives us much to think about. It is to be hoped that we think straight, for whatever measures we adopt to achieve recovery will affect habits at home and opinions abroad. We naturally want the effects to be beneficial on all fronts: we want to use every public and private tool at our command to get out of the economic downturn; and we want to show the peoples of the world that a free society can cope with economic problems by an intelligent application of freedom-preserving methods in both the public and private spheres of the economy. The trouble is that we have touted abroad a very special 18th century brand of free enterprise, while all the time practicing a very special 20th century version of American free enterprise. The contradiction casts the shadow of doubt over the validity of *both* versions. In effect, free enterprise, both old and new, is again on trial, and the courtroom is jammed with onlookers.

Here is a quick summation of what has happened at the trial thus far. As you know, the defendant, free enterprise, has long been suspected by certain parties of being a tool of the privileged. Even in the United States, where officially free enterprise is recognized as the work horse of economic progress, there are some who doubt its efficiency and sincerity. Early in the trial, the defense counsel sought to allay such doubts by quoting from the *Statistical Abstract of the United States,* thereby attempting to establish just how magnificently the work horse has performed on behalf of the common man. "The American people," he said, "have the highest standard of living in the world. Their productive capacity is unmatched; their purchasing power unparalleled. All this free enterprise has accomplished."

The prosecution objected. "Your Honor, the defense counsel's summation of the *Statistical Abstract* is a chronicle of achievements. But it is free enterprise that is on trial here, and I submit that the defense has not established an absolute causal relationship between free enterprise and the aforementioned achievements.

The defense counsel offered a counterargument. "Your Honor, the prosecution knows very well that free enterprise is a term of reference. It is not a living, articulating creature. Its very identity must be spoken for, and has been spoken for: by two former presidents, Herbert Hoover and Harry S. Truman; by six legislators, including Senators Harry Byrd and Hubert Humphrey; by representatives from the Executive branch and from our agricultural community, including Secretary Ezra Taft Benson and the president of the New York State Dairy League; by representatives from labor and business, including Walter Reuther of the UAW and Harlow Curtice, president of General Motors; by six housewives; by three baseball players; and by many others. They all say they are for free enterprise, and they have all used the words free enterprise as a term of reference descriptive of the American economic system."

The prosecutor persisted in his objection. "Your Honor," he said, "the central issue before us is whether free enterprise is really free and enterprising, or at least whether it is as free and enterprising as its proponents claim. The validity of the opinions expressed by the witnesses for the defense has not been established, since the court does not yet have the benefit of cross-examination by the prosecution. Since the prosecution will seek to prove that free enterprise *in practice* in the United States is far different from the classical term of reference which the defense so conveniently adopts—so much different, in fact, that it has become a lower form of better planned systems—I must object to the defense's attempts to ascribe achievements to the defendant before the defendant's identity is clearly established."

At this juncture court was recessed, pending a ruling from the bench. It is much too early to attempt even a guess at the outcome of this trial. However, it is clear that the defense is now really on the defensive. It is also clear that cross-examination by the prosecution will be an ordeal for the distinguished defense witnesses. The defense counsel will have to develop some sort of harmony out of what each and all of them mean by "free enterprise." It will have to find a unified theme from testimony which will undoubtedly be contradictory. Yet this is what the defense will have to do if the American version of free enterprise is to have a unique and recognizable identity—one that the American people and people abroad can see as something distinct from the Adam Smith version, and something which qualitatively and ideologically has little resemblance to the government-administered economies for which Americans express an official distaste.—H.B.

Challenge Notes

Elementary capitalism and profit "sharing"; built-in stabilizers

THE United Automobile Workers' demand for a profit-sharing plan in the automobile industry has been violently denounced in some quarters as "un-American." We do not like the way the word "un-American" is frequently bandied about. After all, an estimated 20,000 very American employers have profit-sharing plans covering more than a million and a half employees. On the other hand, we must agree that Walter Reuther's proposal challenges some basic features of our capitalist system.

The trouble with Reuther's proposal is not that he wants American workers to participate in business prosperity. Nor is there anything "socialist" about making every worker a capitalist. What is objectionable about the UAW plan —and similar plans both in this country and abroad—is their attempt to make profits an issue in collective bargaining. But profits, by definition, are a return on investment. Making them a part of collective bargaining agreements gives the worker something he did not earn. The only investment he has made is in the form of labor (and union dues) for which he is paid a wage. To give him a share in his company's profits is a way of expropriating the true investors—the stockholder and the firm itself.

This is elementary capitalist economics and the trouble with the Reuther plan is that its framers apparently do not understand this. Nor are they alone in their desire to blur the functions of worker, investor and manager. In Germany many industries are governed by boards of directors which include union representatives. The scheme has now been in operation for a number of years and is equally unpopular with both management and workers. Unions have found that it makes collective bargaining more difficult while management has found that it interferes with managing. Even so, the idea continues to be popular—at least among legislators and intellectuals.

Similar schemes are at work in certain English and French industries where the results have been just as disappointing. And yet the idea continues to excite the imagination of many people, just as Reuther's profit-sharing proposals are considered "bold" and "imaginative" in many quarters.

From an economic point of view, these people are, in our opinion, hopelessly wrong. But that does not solve the problem. The real question is: How can we make all Americans feel they are participating in the capitalist system without destroying those aspects of it which make it work?

Built-in stabilizers

ONE REASON why many economists expect the current recession to be short-lived is that government spending has already gone up and is expected to rise even more in the next fiscal year beginning in July.

Another reason is that most economists have great faith in the government's ability to alter business trends through its tax and credit policies. Finally, economists believe that many government programs act as "built-in stabilizers"—that is, they stimulate business in times of recession, like the present, and act as a brake during inflationary periods.

It is this last basis for confidence which seems to us a little wobbly. For example, economists have long believed that the government's many insurance and credit programs (especially in such fields as housing and agriculture) act as built-in stabilizers during periods of recession.

This is a comforting theory. The only trouble with it, as a recent study of the government's insurance and loan operations by the National Bureau of Economic Research points out, is that it does not square with the facts. After a comprehensive survey of all the government's operations as an insurance and credit agent for business, the authors are forced to conclude that such programs "have tended, in the aggregate, to expand irrespective of general economic conditions."

Now, programs which just grow are of little use as antirecession measures, for they do not expand *more* than usual when business is slack. Neither are they much use as anti-inflationary measures, for they do not expand *less* than usual when business is booming. While such programs can be justified on their own merits—as making homeowning easier, for example, or as helping the farmer and small businessman get credit they would otherwise be unable to obtain commercially—they are not built-in stabilizers and should not be relied upon to get us out of business slumps.—M.K.

NATO ANZUS American Union

The Regional Economic Bloc

by H. C. Wallich and R. L. West

Euratom SEATO Benelux

A practical application of the adage that in union there is strength

THE DECADE since the end of World War II has witnessed a persistent and sometimes bewildering proliferation of regional organizations. In Western Europe alone, to name but a few examples, the United Nations Economic Commission for Europe coexists with the Organization for European Economic Cooperation, the European Payments Union, the Coal and Steel Community and the Benelux Union.

With no evident sense of redundancy, these agencies welcome the existence of NATO, Euratom, the Nordic Union and the Western European Union, and there is now confident movement toward the European Common Market and a Greater Europe Free Trade Area. Objectives expand and membership fluctuates. But the list of regional consultative, coordinating, advisory, executive and legislative bodies seems to grow without any visible limits.

And the phenomenon is worldwide. In Latin America, we find the American Union, the Organization of Central American States, the Caribbean Commission, the Economic Commission for Latin America, and a proposed Common Market. In Asia, there are the ANZUS Security Pact, SEATO, the Economic Commission for Asia and the Far East, and the Columbo Confederation. In the Middle East are concentrated the Baghdad Pact, the Arab League and another United Nations regional economic commission.

What has generated this extraordinary increase in regional organizations? What problems are they expected to solve? What are the future prospects, and what does this emergent pattern mean for the United States?

In searching for answers to these questions, we confront the

unprecedented disorganizations caused by the war, and the means by which some order has been added to the chaos of the past decade. The prewar network of world trade and payments collapsed under the glacial weight of World War II. In Europe, the war drained away the stocks of international payments reserves, disorganized trade and production, dissipated critical sources of external earnings and immobilized much productive capacity. In the face of unprecedented difficulties, moreover, government assumed a load of diverse new responsibilities: to secure high levels of employment, to promote rapid growth of output and to attain popular welfare objectives. Squeezed between new obligations and diminished means, governments began to scurry about in search of resources and techniques to do the job.

Even before the end of hostilities, the United States, Britain and Canada had formulated ambitious plans for world-wide organization. In the American scheme, the United Nations was to keep the peace; the International Bank for Reconstruction and Development was to finance the rebuilding of the older economies and the development of the new; the International Monetary Fund was to stabilize currencies throughout the world; the International Trade Organization—which remained a blush on our cheek—was to ensure freer trade around the globe.

But postwar reality was in ludicrous contrast with these blueprints. The world was split, ideologically and militarily, into two camps. Reconstruction needs were far beyond the resources of the IBRD. Since rigid wartime control over production and exchange were continued in force by most countries, trade moved haltingly under the most extreme restrictions. In place of the world-wide economic cooperation envisioned by the U. S., international disorganization and national autarchy threatened to become the rule. Under these circumstances, regional cooperation seemed to offer a realistic compromise between the frustrations of autarchy and the impossibility of universal organization.

The European Recovery Program put European nations back on their feet and promoted the habit of cooperating. Through EPU the movement of money was freed within Western Europe while the region was sheltered from full competition with the dollar countries. The Organization for European Economic Cooperation broke and helped to reduce

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trade barriers among its members. NATO was created to hold a shield over Western Europe that the UN was unable to provide.

While such plans were most successful in Europe, similar efforts were initiated in Asia, the Middle East and Latin America. Countries began to realize that local problems are best resolved locally. Where the community of interests is strong, as in Europe, obligations are most readily undertaken and mutual criticism more easily accepted than among antipodes.

A further impetus to regional integration has come from the recognition that for most countries isolation today means weakness. A long sequence of events—recently, the Suez crisis—has given small nations a chilling sense of their impotence in isolation. The lack of military security is but one of the causes of this disenchantment with national autonomy. In Europe there is a growing awareness that national boundaries have become anachronistic, and even in Latin America, Asia and Africa, nationalism is increasingly accompanied by the beginnings of continental solidarity.

Vigorous movement

Today, the movement toward common regional markets and growing economic integration is vigorous. Assuming these plans materialize, what will they mean for the participating countries and for the United States and other nonmember nations?

One economic advantage of closer regional association is similar to the advantage the United States is believed to have obtained from its large domestic market. This market has helped us to exploit the benefits of mass production. It has helped to reduce costs and widen the range of consumer choice. Automobiles and all kinds of durable consumer goods are the most striking testimony of these potentialities.

Another advantage is regional specialization. This, too, is exemplified by American experience. With free movement of capital, workers and goods within the territorial United States, producers have been able to locate their enterprises where operations are cheapest and markets most advantageously served. Steel production, for instance, has historically been concentrated in Western Pennsylvania and in the Great Lakes Basin, at the confluence of easy access to iron ore, coal and markets. By eliminating artificial barriers in Europe and eventually, perhaps, in Latin America and elsewhere, production will be encouraged in those regions where it is most efficient.

A third potential benefit of

larger common markets is more competition. Many countries today are unwilling, and perhaps unable, to face the competition of American industry. But they might be willing to expose their domestic producers to the less rigorous test of competition among a small group of neighbors. Intra-European or intra-Latin American competition may be acceptable where world-wide competition is not.

Improved techniques

Mass production, regional specialization and stronger competition are the gains that a common market, such as now planned in Europe, seems to offer to its proponents. But can we be sure that these potential gains have not been oversold?

With an available market of 150 million European consumers, for example, the prospect of economies from larger-scale production appears impressive on the surface. Beyond a given size, however, the advantages of mass production are limited. Most European plants probably are already large enough to achieve efficient production. In these cases, further gains in efficiency will come only as improved techniques are developed and adopted.

The benefits from regional specialization are likely to remain limited in the foreseeable future. It seems hardly plausible that a country will allow an important industry to be squeezed out because it is more efficient in some other country.

In the United States, the benefits of regional specialization, moreover, are largely due to the free domestic movement of our working force and of the means by which investment and production are financed. The potentialities of regional specialization abroad will likewise depend on the mobility of labor and capital, from one participating country to another. Here, however, the future is clouded. It is not easy to take a sanguine view of prospects for widespread population and capital transfers.

Finally, the gains to be derived from competition depend not only on the existence of a wide market, but also on effective governmental action to prevent monopolies and cartels. Such action has made the great American market competitive. Would the Europeans police their common market in a similar way?

The net advantages of a common market, discussed so far, are likely to appear slowly and prove moderate, at best. But the growth of productivity is not simply a question of scale of production, specialization or competition. It is also one of investment. What distinguishes the high level of

United States productivity is the large stock of capital available to assist each worker in his productive tasks. The U. S. economy increases its already large stock by investing between 60 and 70 billion dollars each year—about 15 per cent of gross national product —to provide about 1,000 dollars in replacement and creation of new capital for each American worker. But in Germany, for example, the recent investment rate of about 25 per cent of gross national product—comparatively much higher than in the United States —provides only 600 dollars of capital formation for each worker. In most parts of Europe, and far more acutely in Asia and Latin America, the creation of capital for each worker is still less. As a result, the available stock of tools and capital equipment is much smaller abroad. Here lies one of the chief explanations for the productivity gap that separates Europe from the United States.

Will the common market do anything to increase the rate of capital formation? Proponents of closer regional association anticipate a vigorous response by businessmen and investors to the new profit opportunities generated by expanded markets and reduced costs. Is such optimism securely founded? The appearance of increased profitability in new ventures is likely. But the rate of investment in Europe is already high, straining against the limits of available financing. Out of the new confidence and opportunities generated by the emergence of a common European market, it *may* be possible to add something like one additional per cent to the four or five per cent of annual growth, which has been the rule in Europe over the past decade, plus whatever other gains may accrue from the benefits of a common market mentioned earlier.

Many regional organizations owe their existence to American support—moral, financial and military. But the emergence of regional ties frequently is viewed with misgiving here because of the gnawing suspicion that regional asscciations may issue into neutralism. This suspicion is reinforced by fear that regional blocs will discriminate against our exports and investments.

This suspicion does not lack precedent or substance, but when stated without qualification, it appears exaggerated. The gains potentially achievable through closer regional ties are great; enthusiasm abroad for progress on regional lines continues to rise. Besides, there is no attainable alternative in sight. Support for further regional strengthening of bonds is, for the United States, a calculated risk, but it is a risk the United States is willing to bear. ■

Does the democratic ideal of individualism need defense against the mass discipline of a giant organization?

Democracy and Organization

by Kenneth E. Boulding

IN THE PAST 75 years there has occurred a rise in the scale of organizations of all kinds which is of such magnitude and importance that it can be called an organizational revolution. It is reflected not only in the rise of the giant business corporation; it is characterized also by the concomitant rise of labor unions, professional organizations, farm organizations, trade associations and even churches, where it takes the form of the ecumenical movement. It is reflected perhaps most importantly in the increasing scale of government operations, both civilian and military—a movement which reaches its conclusion, and indeed overreaches itself, in the brontosaurian organizations of Communist states that cover almost all fields of human activity.

Organizations have a strong tendency to grow as long as they are successful. This is not an absolutely necessary "law"; there are examples of organizations which are both successful and deliberately static. These, however, are rare examples of self-control.

However, they eventually run into obstacles because of certain "diseconomies of scale," or internal and external inefficiences of size. The internal inefficiencies are related mainly to the difficulties of maintaining two-way communications between the decision-maker and those who are affected by these decisions, or who are in contact with their effects. As an organization grows larger, it must have more stages in its hierarchy. More bottlenecks begin to develop in the flow of information from bottom to top, and top to bottom. Thus, there are more distortions

in the information which reaches the responsible decision-maker, and important decisions are more often based on false images of reality. The result is more frequent "bad" decisions which injure, or may even destroy the organization.

Modification of purpose

The external inefficiencies are related to the increasing pressures of the environment as an organization expands into it. A manufacturing firm exhausts the easy market for its product and finds that it can only expand its sales at some cost, either in selling effort or in price reduction. A labor union or a religious or political sect expands easily for a while until it has attracted all those who are easily convinced; then it can only expand at the cost of increasing effort or modification of its purpose.

If, then, there has been a rise in the scale of organization, there must have been some outward movement of what might be called the "size barrier" at which inefficiencies and lack of success begin to become apparent. The origin of this action upon the size barrier is naturally complex, but most of it derives from a series of technical improvements, first in the machinery of communication, like the telephone and typewriter, and secondly in the skills of organization itself—particularly in the development of specialization within the executive structure. The vice president is perhaps the most important invention of the 19th century.

The first "wave" of the organizational revolution came roughly from 1880 to 1900: this was the period that saw the rise of the giant corporation and the first successful organizations in labor, professional and farm groups. It is an important question whether we are not now encountering a second wave, based on electronic computers, new methods of information processing, organization theory, public relations and survey research. Certainly, many of the developments of the past 10 years have a revolutionary air about them, and may lead perhaps even to the point where internal inefficiency alone could not prevent a single corporation from expanding to take over the whole American economy. That would mean something very much like a Communist state!

Long before this point, however, the external barriers to growth come into play. The growing organization bumps into other growing organizations of like size and power. In the idyllic world of the 18th century, the internal barriers to growth of organization were

Kenneth E. Boulding is Professor of Economics, University of Michigan.

so great that external barriers seldom came into play. Imagine running a big corporation, or the U.S. Army, with hand-written correspondence, no filing systems, no telephones, no typewriters and no vice presidents.

Once the internal barriers are removed, however, there is nothing to prevent the growth of organizations to the point where they impinge directly on each other, and where, therefore, the conflict between them becomes at least potentially intense. This intensification of conflict may be avoided if there is an equal growth in terms of bigger markets in the "field" into which the organizations are expanding, or if there are effective institutional frameworks for resolving the conflicts, like mediation boards, arbitrators, courts, governments and United Nations organizations.

External legal barriers

The growth in the scale of organizations has a certain inevitability about it: given the underlying changes in the techniques of communication and organization, it is almost impossible to prevent the growth of organizations short of imposing drastic external legal barriers, as we did to some extent in the United States in discouraging national branch banking.

The organizational revolution poses some difficult questions for both the theory and the practice of democracy. Historically, representative democracy has been closely associated with the "Jeffersonian ideal" of a society of small, familial organizations coordinated through the instruments of the free market and representative government. In one sense, the opposite of democracy is hierarchy—that is, the organization of men under a "boss," or a succession of bosses.

The democratic ideal is that there should be neither bosses nor bossed, that no man should be inferior in status to another, or unduly dependent on the favor of a superior. Hence it is the independent craftsman or farmer who embodies the ideal democratic type, dependent for livelihood on giving service to many customers, but beholden to no one of them. The democratic political ideal likewise sees the politician as the servant of many voters, much as a craftsman is the servant of his customers, or the writer the servant of his many readers. To have many bosses is to have none. We seek liberty, therefore —freedom, that is, from the domination of man by man—in the impersonal and atomistic operations of the free market for commodities, for votes and for ideas: free enterprise, free ballots and free speech.

The rise of large-scale organizations plays havoc with what might be called the "naive" democratic ideal outlined above. In the first place, organizations inevitably involve hierarchy. From commander-in-chief and general to private, from pope and cardinal to communicant, from the president of the corporation or the university to the operative, instructor or janitor, the line of command ramifies downward.

Along with hierarchy comes impersonality and bureaucracy. A large organization cannot be a "big happy family." In order to establish the communications system of a large organization, it is necessary to formalize, simplify and depersonalize the messages, activities and relationships of the people who form the organization. An organization consists not of "persons" but of "roles" connected by lines of communication. The building blocks of organizations are not the rich, complex behavior systems capable of almost infinite variety and unexpectedness, like you and me, but little pieces of personality like a die cutter, a foreman, or a vice president in charge of public relations.

Mechanical vice president

The role or position is not dependent on the person. It is occupied by a succession of persons, and when one leaves, another takes his place. The behavior of the occupant is determined more by the nature of the position than by his own personality. A role is thus an input-output machine, which is fed certain inputs and produces certain outputs. Indeed, machines are frequently better role-occupants than persons. As machines become more clever, we shall see them replacing persons in the more executive roles also, and a completely mechanical vice president is not outside the realm of possibility.

The picture I have drawn above is, of course, a caricature. In all organizations there is an informal structure of communication, based on more complex personal relations than the formal structure allows. This informal structure is often very different from the formal organization chart, and it is frequently the only thing which prevents the organization from grinding to a standstill in a thicket of formal misunderstanding. It does matter who occupies a role, and the personality of the occupant frequently changes the role itself. Role creation, indeed, is one of the most creative acts of the human personality; without it, organizations would die of sheer rigidity.

These qualifications, however, do not prevent the world of General Motors, the Soviet Union, the AFL-CIO, NATO, the United

Nations and the World Council of Churches from being very different from the ideal world of Thomas Jefferson. The basic values of democracy, however, are more important than the particular institutions which embody them, and one of the greatest tasks of our own day is that of the creation of institutions which can embody these basic values in a world of large organizations.

Formidable list

This means defenses against hierarchy, against the power of the superior over the inferior. It means defenses against the fragmentation of the person into roles, against other-directedness, against being all things to all men, against the loss of that inner core of personal integrity which democratic theory assumes every man to possess. It means also defenses against ruinous and meaningless conflicts, the major one being a large-scale international war, and against organizations which are specialized for conflict—defenses against militarism in the state and against militancy elsewhere.

The list is formidable; defensive institutions are few. Nevertheless, the situation is not hopeless. The skills of organization can also include skills of defending the individual against organization. One answer is the development of such institutional defenses as academic tenure, seniority, grievance procedures under collective bargaining and the legal recognition of civil rights. Opposition can take the form of "countervailing power" organizations like labor unions, farm groups, civil liberties organizations and pressure groups of various kinds. All this might be described as defense of the individual by "constitutionalization."

The maintenance of active labor markets, for instance, through full employment policy is also part of the answer. The freedom to quit, which implies the ability to find another job, is still perhaps the most powerful defense of the individual against his organizational superiors.

The ultimate defense of the individual must lie, however, in the integrity of the individual himself, and in his willingness to suffer rather than conform. The largest and most powerful organization is helpless before the individual who will die rather than serve it on unacceptable terms. The Thoreaus among us defend the liberty of all. ■

Soon There Will Be Two in Every Garage

THERE ARE so many automobiles in the United States, a recent survey shows, that if every man, woman and child in the country were to enter automobiles at the same time, there would be room to spare.

Assessing the Fed

by Raymond Rodgers

Are the Federal reserve banks properly organized to meet the needs of private business and general public policy?

THE Federal Reserve System bears an awesome responsibility in maintaining the country's economic stability while encouraging the maximum sustainable rate of growth. Its instrument is a flexible currency and credit control which permits it to exert leverage in cooperation with government and business.

Everyone is in agreement over the need for stability and growth. But *sustainable* covers such a range of meanings that it justifies the rather heated controversies about the Federal reserve banks. What is a sustainable rate of growth, and is the Fed equipped to accomplish its functions?

The system has not changed as fast and thoroughly as the economy which it serves. But there is wide disagreement about what should be done. The American Bankers Association is advocating major revisions, including a drastic reduction in the reserve requirements of commercial banks. The ABA thinks that cash reserves of 10 per cent against demand (checking) deposits, about half of the present requirement, is sufficient.

Although the bankers want the reserve change to come in stages, such a change is bound to have wide effects on the banking structure. It would make money readily available to the economy and give more discretion in making loans to the commercial banks. This added freedom for the banks means less authority for the Fed. The ABA feels, however, that the Fed has sufficient leverage through other means and that the commercial banks have the financial strength to play a bigger role.

The question of reserves is discussed in an ABA package plan embodied in a 167-page study. The Federal Reserve Act of 1913 has been amended many times, and there have been many additions to legislation on the stock market and savings and loan associations. But all these constitute only patches, grafts and additions rather than a needed organic revision. Many of the changes are contradictory and complicate the problem of credit control.

Our world responsibilities and pressures have tremendously increased since 1913. Our public debt has reached towering heights. Intermediary financing institutions, particularly in sales finance, personal finance and mortgage banking, have grown to giant proportions. Direct government lending and federal guarantees of private lending have also climbed to high levels. Government intervention has thus become normal, as it was not when the Federal Reserve Act was passed. One result of all these changes has been the increased complexity of credit management.

Important factors escape the Fed's control powers over credit. Thus, from mid-1955 to mid-1957 the gross national product rose by 50 billion dollars, while the money supply increased by only three billions. It was increased velocity that gave intensified effectiveness to the currency, and the Fed cannot control velocity.

The structural changes in the economy have resulted in the creation of great pools of money outside of the Fed's authority. The money is held by such institutions as savings and loan associations, life insurance companies, government lending agencies and pension funds. Some economists would like to establish something like a federal reserve system for these institutions. They suggest controls over residential construction, consumer credit, corporate equipment outlays and wage rate changes. But these ideas are highly controversial, and the extension of government interference in new areas would be opposed by most bankers.

The major power of the Fed to influence business activity presently depends on its ability to manipulate the availability of reserves for the commercial banks. This power derives from the legally established reserve requirements, presently from 20 to 12 per cent, depending on area, and the Fed's policy of buying or selling government securities. Since the banks must maintain a certain liquidity percentage, anything that tends to reduce their liquid holdings below the legal re-

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quirements will force them to reduce their loans. Conversely, an increase in cash or cash equivalents permits them to put more money into the economy in the form of loans.

Thus, the Fed's operations on the security market, which affect the cash reserves of the commercial banks, have the end result of controlling credit throughout the nation. The mechanism is simple. When the Fed buys government securities, acting through its Open Market Committee, it puts more liquid reserves into the hands of commercial banks. Thus they can loan more money.

Excessively active cash

If the Fed feels, however, that there is too much "free" money in the economy and that this is causing inflationary pressures, it can gather up the excessively active cash by selling the government securities. This extra liquidity is thus "frozen" in the Fed's vaults, and the commercial banks, whose cash reserves were reduced through the purchase of government securities, must cut down their private loans.

The Federal Reserve Board also has the power to change the reserve requirements within certain limits. But the effects are so drastic that the Fed rarely uses its authority. It did not, for instance, use this instrumentality when it was trying to hold down inflation from 1955 to 1957.

The Fed can also influence credit by causing a change in the discount rate offered by commercial banks for business notes. Businessmen who want to borrow money on such notes would be less inclined to do so if the discount rate were high, and commercial activity would be slowed. A discount rate change is thus indirect and mainly psychological in effect.

Usually, such a change ordered by the Fed follows the actions of the commercial banks themselves, who will, for supply-and-demand reasons, often raise their rates above the level indicated by the Fed. The reduction by one-half of one per cent ordered by the Board in November of last year, however, led the market. This was a case when the Fed felt that strong action was necessary to counter the developing slump. This dramatic signal of a change in policy was clearly understood as an effort to ease the money market, but its immediate effect was dampened by recession factors.

The ABA wants to refine the powers of the Federal Reserve Board while giving the banking system greater latitude in meeting the needs of the economy. But long-range plans, which are incontrovertibly necessary, can have short-term results of a different character from the basic objec-

tives. Thus, a reduction of reserve requirements and the consequent loan expansion would have a boom effect, a welcome development in a time of recession tendencies. But Congress can seldom synchronize its legislative process to the latest economic developments, and such a change during an inflationary period would add excessive strains. Such results, favorable or unfavorable, do not alter the merit of the ABA proposal, but they do indicate how complex and political the problems of money management are.

Indeed, the relation of the Federal reserve banks to the government is the big, continuing financial problem of our time. The Fed performs important fiscal functions for the Treasury, assisting it in financing federal expenditures. This involves not only the day-to-day flow of an enormous volume of funds, but also an important responsibility for the sale of new issues of government bonds and support of the market for bonds previously sold.

Opposing interests

Sometimes opposing interests strain the Fed-Treasury relationship. A primary interest of the Treasury, on the one hand, is to meet government needs by selling enough bonds at the lowest possible interest rates. The primary interest of the Fed, on the other hand, is to counter both inflationary and deflationary tendencies. The Treasury may want the Fed to buy a great many bonds at a time when the Fed purchases would put too much money into the economy and thus intensify inflationary pressures.

This was the case during the Truman administration, when the Treasury was trying to finance the Korean war and the Fed was seeking vainly to hold back inflation. The problem was since resolved by reducing the Fed's obligation to support the government bond market. One result of the policy change was that the Treasury was forced to increase the bond interest rates in order to attract purchasers, and thus the charges on the public debt became greater. Most experts feel that the Fed's greater freedom justified the greater costs.

The Federal Reserve Board was made an independent agency to prevent the exploitation of our monetary and credit system for partisan political advantage. [See *The Quasi Companies,* February, 1958, page 13]. But, it must concern itself with an irreducible political element and establish policy in accord with the objectives of the Administration and Congress. An element of independence was sought by having the Board supported financially by the Federal reserve banks, thus

freeing it from dependence on Congressional appropriations. The Board members, moreover, are appointed for 14-year terms to protect them against political reprisals. The result of the various legislative provisions and the realities of economic life is a situation that calls for a great deal of diplomacy and compromise.

The Administration restrained itself, despite some misgivings, during the period of credit restraint from April, 1955 to November, 1957. The Board, on the other hand, relaxed the credit restrictions eventually despite the fact that prices were still rising. In both situations compromises permitted working arrangements.

An economy is one of the most delicate mechanisms ever fashioned by man. Critics, aided by hindsight, could easily raise cavils about the policies and compromises involved in credit management. They might insist that the Fed was not tight enough during a period of steadily intensifying inflation and that the Board was too slow in relaxing restrictions when the boom turned swiftly soft. But no one can predict the precise effect of policy changes.

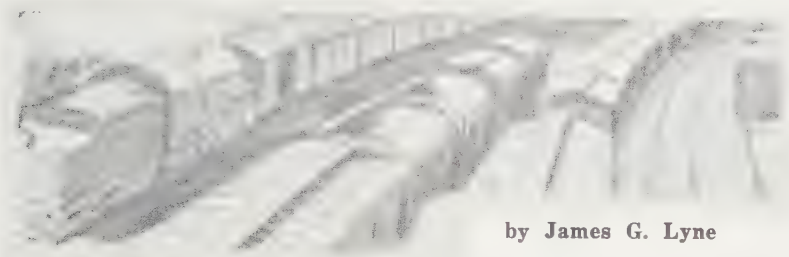
The economy, moreover, can act in such contrary fashion that any action is bound to have adverse effects. It is generally recognized that inflation is a chronic problem. But what do you do when business activity goes down and prices keep rising? A credit relaxation at such a time will counter recession tendencies but will keep prices up; the refusal to ease credit will strengthen the recession effect. The critics and the money managers can both find justification in such a situation.

What is the right balance? We must concede that the best of domestic arrangements can be upset by events beyond the control of the Fed, indeed, outside the scope of the government. Thus, the Korean war and the Suez affair meant increased inflationary strains.

There is no clear answer to the problem of balance, and the best that can be done is to establish clear principles and objectives. It is generally agreed that unemployment must be kept down, but not so far down that inflation burns up our money. It is also agreed that we must maintain a consistent growth in the economy, but, not at a rate that puts excessive strains on our money supply.

It is obvious that the Federal Reserve System must be revised to meet the great new ranges of demands put on it. But there will always be new questions that arise out of situations that have not yet defined themselves. We can be sure that improvements in the Fed will have to be followed by more improvements. ■

The troubles of the nation's biggest transportation business have reached the critical stage—with few remedies in sight



by James G. Lyne

THE RAILROAD ROLLBACK

THE financial position of the railroads, which was precarious a decade ago, has got worse. James M. Symes, president of the Pennsylvania Railroad, told a Senate transportation committee early this year that the rail traffic slump would mean bankruptcy in a "very, very short time" for some carriers. How bad is the railroad situation and why?

No one can challenge the economic superiority of the railroads as the cheapest means of transport for the bulk of the nation's freight traffic. Despite the development of other means of transportation, rails carry today almost half of all freight. In 1955 the railroads moved 49.41 per cent, against 17.7 carried by trucks, 16.94 by inland waterways, 15.91 by pipelines and .04 by air.

The railroads, moreover, were still transporting more passengers than any other common carrier. It is true that by 1955 private automobiles carried 92 per cent of all passengers, but the railways were still a few percentage points ahead of both buses and aircraft.

The railroads thus continue to be the nation's greatest transportation business. Their importance in a war emergency can be seen in the fact that they almost doubled freight tonnage from 1940 to 1944. It was in view of this past performance and the present situation that Major General E. C. R. Lasher, head of the Defense Department's traffic organization, expressed his alarm at the dangerous potentialities. Gen. Lasher fears that the railroads would lack the necessary trackage and rolling stock to deal with a war traffic load. Manpower and fuel shortages would make it utter-

ly impracticable to handle a greatly increased freight load by highway. Despite the magnificent performance of the railroads during World War II, transportation strains were protracted.

It is true that the railroads are no longer competitive in the "retail" activity of picking up and dropping a few passengers and pounds of freight at every way station. Their efficiency in moving big payloads has improved enormously. But a mass-production industry finds it hard to thrive on static volume.

Institutional time lag

The railroads' troubles lie wholly in the institutional time lag, in the slowness of their adjustment to the revolutionary changes in the American environment. They have been slow to quit the functions they should no longer be doing, and similarly laggard about maximizing their services in an area where they are the natural leaders. An industry that was once a revolutionary force in American progress is no longer playing the leadership role which is still within its powers.

The solution thus depends on institutional changes, and these are dependent on public opinion and policy. Railroad behavior, unlike that of unregulated industries, is frozen into static patterns by regulatory statutes and precedents. The railroads can change only if the legislators and regulators will let them change.

The rigidity is particularly evident in rate-making. The railroads themselves have been slow to take initiative in this, but comprehensive research projects are only now under way. The regulatory authorities must pass on the changes, and there are always vested interests in the status quo who will offer bitter resistance. Few important changes are made without challenge and protracted delays. The Interstate Commerce Commission has kept many rates at high levels when the railroads wanted to bring them down. The result was that the railroads were priced out of the market to the benefit of the truckers, while the less efficient carriers were expensively subsidized.

State authorities have been similarly reluctant to permit economizing changes in passenger service. The railroads are constrained to continue hopelessly unprofitable passenger lines at an annual loss of 700 million dollars. It is true that service to the public is at issue, but alternative transportation is always available today. Furthermore, the railroads bear certain tax burdens not shared by competitors, and they lack the power to compensate for defi-

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cit services by changing rates on other services.

The unfavorable position of the railroads, both in regard to taxation and subsidization, hurts the public, the commuters and industry generally. Transportation improvements in recent decades have been financed with tax money or public credit based on tax-exempt bonds. But the bridges, vehicular tunnels and super highways have been almost exclusively for the benefit of motor and, indirectly, air traffic. The railroads have become the orphans of American progress.

Aggravated situation

Massive improvements needed for urban passenger facilities have dwindled to nothing. The heavily taxed industry cannot afford them and could not find sufficient investors in its tax-bearing securities to put up the money for improvements that do not add to net earnings. New York City's Pennsylvania and Grand Central Stations and the Hell Gate Bridge date back more than a generation.

The competitiveness of the railroads is also reduced by governmental financing of facilities for other common carriers. The rail industry cannot prosper unless an adjustment is made. This situation is aggravated because the law and regulatory precedent prevent the railroads from entering the barge business and thus from sharing in the largess bestowed on waterway users in the form of a toll-free waterway built and maintained at public expenses. The railroads were also forced out of air transportation, and they can maintain trucks only under restrictions that do not apply to other truck operators.

Railway union practices are another disadvantage for the rail industry. Union agreements are clogged with craft rules protecting jobs in a way that means operating losses. Thus, the engine crew on the four-hour, New York-to-Washington run gets two-and-a-quarter days' pay. Nobody objects to paying good wages, but that is not the same thing as overpaying. The union leaders are able and practical railroaders, and there is hope that they would respond favorably to a comprehensive effort to improve the railroad's competitive position, which would benefit their members.

Thus, four major structural changes are needed to re-establish the competitive position of the railroads: the right to establish realistic and competitive freight rates, revised passenger service, tax and financing parity with other common carriers and fair working rules.

Railroad finances are a sharp illustration of the static situation.

Railroad earnings have averaged less than four per cent on the investment since the war, about half the rate of return in the electric power industry and one-third the manufacturing industry rate. With such relatively unattractive earnings, the rails find it hard to attract new or long-term investment. There have been no new stock issues. Outstanding bond issues have usually been successfully refinanced on maturity, but hardly any funds have been raised through bonds for property improvements.

The only new investment money in any quantity coming from outside the industry has come from the sale of equipment obligations, which are short-term securities amortized from earnings in 10 or 15 years. Equipment investment has barely been sufficient to keep the equipment intact, let alone increase the supply. Except for periods of sharp decline, and I assume the present carloading slump is abnormal, the railroads have suffered from a chronic freight-car shortage.

With virtually no inflow of permanent new investment from "outside," the rails are wholly dependent upon net earnings for replacement funds. The net earnings, meager as they are, suffer taxes of 52 per cent.

Freight cars that are now being scrapped cost 2,500 dollars when they were purchased in the Twenties. Thus, a railroad company has but 2,500 dollars in its depreciation account to pay for a replacement. But a new freight car now costs 8,500 dollars. The result is that the company must run harder to stay in place.

It is true that the relative position of the railroads has declined, but a transportation industry that still carries half of the nation's freight is too big a body economic to be permitted to remain an invalid. In 1955, the railroads had a transport volume of more than 631 billion ton-miles, six times as great as the 1900 figure. The relative decline, moreover, is overshadowed by an absolute rise that reached its peak of 795 billion ton-miles in 1944. The absolute decline since the war emergency has been minor.

A railway executive recently observed: "I have unbounded faith in the intrinsic economic strength of the railroads. If we weren't invincible, we'd have been strangled long ago."

But the weaknesses are not intrinsic; they are not economic or technological. Their origins are human, and they take form only in human institutions. They are thus removable by human action. The solution depends on the 170 million human beings who lay daily claims on the railroads' services. ■

Americans do not make the "rational" choices assumed by classical economics

What Makes the Consumer Buy?

by Victor Lebow

AMERICANS do not consume in order to live; they live in order to consume. The same voracity with which we have despoiled our national resourses characterizes the waste in our consumption.

If Veblen were writing today, he would amend his observations in two particulars. First, he would have to broaden his concept of the "leisure class," for at every level of our population the mores of this class have become the universal goal. Second, he would amplify his famous and ironical label of "conspicuous" consumption to make it not only conspicuous but *competitive* and, more particularly, *compulsive* as well.

The end of restrictions imposed by World War II set off a sustained and feverish shopping spree. It was fed by the enforced savings during the war and maintained by the high levels of employment, incomes and production. Underlying the prosperity was the greatly increased government spending for armaments, foreign aid and agricultural supports. But more than mere satisfaction of needs marks this decade of compulsive consumption; the American consumer was dealing roughly with the concept of marginal utility.

We have attained a new form of grace by our buying, and thus we look upon those who do not or cannot emulate our buying habits as lower beings in the scale of civilization. We have set our consumption goals as the standards for other peoples and we measure our superiority over them by the degree to which they fail to consume on a scale as large, varied, continuous and profligate.

This state of grace of the American consumer is a dispensation bought either outright or on the

installment plan. But once attained, it can be lost by failure piously to exceed each year the purchases of the year before. As with all pieties, reason makes the heretic, and rational buying denies the injunction to consume or, at least, resist it. That is why our consumption has become much more than a response to economic and social needs; it is now a prime patriotic duty.

That is also one reason why satisfactions are less often postponed. In 1946, 30 per cent of consumer durables were purchased on the installment plan. But in 1956, the consumer was buying 78 per cent on credit, mortgaging future income and postponing not present but future satisfactions.

Conscious manipulation

Aside from the role of installment credit, the factor of relative values, which is inherent in the concept of marginal utility, is further distorted by the expert and conscious manipulation of demand. In a very real sense, the most powerful of all American industries is the manufacture of demand. This "industry" not only includes advertising but every medium of communication. In addition, the creation of demand embraces the continuous designing and production of new models, products, services, packages, store fronts and shopping centers. In their eagerness to cash in on this burning demand, the retailers are so many moths being destroyed in ever-increasing numbers. In the four years from 1949 through 1952, there was a turnover of 25 retail stores for each additional retailer—turnover comprising stores opened, closed or exchanging hands. In the next four years, it took 50 turnovers to provide one additional retailer to the total number in operation.

The once definable criteria of "need" and "demand" have become confused and partly meaningless. True, the consumer knows he must eat, clothe himself and seek shelter. But the simple economic man is today a creature motivated by irrational demands.

Certainly our enormous production and high levels of employment and purchasing power have made possible creature comforts and conveniences on a scale no people has ever enjoyed before, and which no other nations on earth today share. But the consumer is far more ignorant of intrinsic value than were his ancestors of two or three generations ago. Whether it be food, clothing, appliances, homes or automobiles, he is influenced by newness, names, consideration of status and prestige—but, above all, by the compulsion to buy. It is

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not ownership that is the motive, for in this new catechism of demand he has been trained to waste, destroy and discard his own goods exactly as the nation has been wantonly destructive of its natural resources. The peripheral elements in demand have become the center and driving force.

Compulsive demand

Thus, during World War II, Americans discovered that the average automobile, properly maintained, could give 10 years service or more. But this key industry requires that six to eight million new cars a year be bought, and a commensurate number scrapped, to make way for the new models. The question of diminishing satisfaction is, again, not decided upon economic or even socially rational grounds, but by force of this compulsive demand imposed from without.

This hysterical quality of American consumption is compounded of two mutually contradictory assumptions. The first, based on the apparent prosperity, is that there is and can be no end to buying. The second is that there will, nevertheless, be an end to buying. This fear feeds on the partly conscious knowledge that the boom is largely stimulated by overconfidence and a continuing high level of defense spending.

We tidy our economic housekeeping by sweeping under the rug the disquieting facts of the distribution of income. In spite of the mounting figures of "savings," we must recognize that the rainy day reserves of 90 per cent or more of the population are meager indeed. The great majority of the working class, and of the middle class as well, have practically no reserves at all in terms, let us say, of being able to face a year of hard times. In fact, the figures of installment buying indicate that the middle income groups are the chief beneficiaries of credit. And they are also the mainstay of "savings stamp" buying—another form of pressure toward compulsive demand, which masks value decisions by making hundreds of shiny gadgets appear free.

The next depression may make its bow in the suburbs with their mortgaged homes, minimal savings, installment debt and forced-draft consumption. The first signs would appear in the suburban shopping centers, in the form of falling volume, bankruptcies of smaller retailers and ruinous competition between larger units. There can be no question today about the overexpansion of retail selling space in suburbia in relation to both present and projected purchasing power. Even a slight drop in employment—as in the aircraft plants on Long Island—brings a wave of store

closings as an inevitable result.

Because of the hypnotic devices by which demand is generated, and the consequent compulsive character of consumption, there is a deep and disturbing distortion of values in our society. The Sputnik hysteria has already provided an insight into our failings in education. But our educational system merely reflects the distorted values.

It is in this context that the anti-intellectualism which dominates our society is best understood. Here can be seen the role of business in shaping American values. The businessman is the dominant caste in our society. To him the citizen is wholly the consumer, and any activity or interest which limits or reduces consumption is heretical. It is here we must look for an explanation of the underpaid teachers, the superficialities of our curricula, and the grudging support of schools and colleges.

Effect of education

A highly publicized study of consumer expenditures was promoted with full-page advertisements headlined, "Education: New Key to Consumers Spending." The study appears to prove that education affects buying habits. Thus, in the 7,000 to 10,000-dollar bracket, families spend an average of 6,637 dollars annually, if headed by a college graduate, but only 5,159 dollars, if headed by a person who did not finish grade school. While these facts are relevant in an analysis of markets, their exploitation is an interesting example of how even education is evaluated in terms of consumption.

Since government at all levels is most responsive to business needs and philosophy, the state plays no role of consequence in encouraging a higher ethic or a richer scale of values for its citizens. The decisions of the average American family in respect to the education of its children reflect this. The college degree has become valuable as a sort of laboratory seal of approval leading to better paid employment. Nor will the new and desperate concern with scientific education restore the ideals of personal enrichment or broaden the interests of our forthcoming crops of graduates.

The fact that so high a proportion of able secondary school graduates fails to go to college is an index not only to governmental but to family values as well. We are ready to sacrifice future satisfactions to gratify immediate desires. Thus, the overwhelming majority of college students come from middle and upper income families where the sacrifice is least painful.

Again, this reflects the forcing

of demand. Since the aim of all sellers is to achieve the maximum in volume and price, the very idea of marginal utility is anathema because it imposes upon the purchaser the necessity of conscious choice, the decision to postpone or limit the satisfactions. In this sense, therefore, the American "demand industry" constitutes a massive assault upon the economics of marginal utility. The pressures of this industry have to be steadily multiplied because only about half of our population can begin to gratify its demands. But since the pressures are everywhere, the values these demands create dominate every sector and class of our society. American industry can plan and create demand with a minimum of relevance to need, if we define need in terms of the requirements of society as well as the individual.

In this value scale thus established, education and even provision for future security must lag far behind the expenditures for beauty treatments, fishing tackle, cigarettes, beer, TV snacks, night clubbing or even combination washer-dryers. And how does the theory of marginal utility operate at all when a man is on an expense account? Does not the installment plan provide, temporarily at least, the gratifications of the "swindle sheet"?

Perhaps my whole point is summed up in a business card many of us have been handed. It reads, "Don't just stand there—*buy something*!"

With this exhortation there can be no place for a personal philosophy which permits a man to loaf and invite his soul. Indeed, leisure time is being lengthened to increase consumption of "leisure goods." Nor, in this orientation, is there much room for responsibility beyond the gratifications of the immediate family.

This is the society girding itself to meet the challenge of the Soviet philosophy which, whatever its other failings and defects, provides the citizen with a responsibility to his country, a pride in its accomplishments and an abounding hope for its future. Marginal utility, moreover, functions at its clearest in the Soviet economy because of the limited production of consumer goods and the relatively low levels of income. Thus, the Communists are honoring in the practice a theory of classical capitalistic economics which we are doing our best to ignore. ■

Pardon My Geneology

THE ORIGINAL surname of Robert Malthus, economist-parson and expounder of a renowned theory of population, was Malthouse.

Economics in Action

double standard

It might be well for the country to return to the Gold Standard to the extent of reviving the old double eagle. The 20-dollar gold coin is a handy symbol in an economic order of things that has a double bite. Business was in recessional movement at the approach of spring, but inflation was sufficiently evident to keep the coin in balance.

stock taking

The loudest, if not the strongest, antirecession ele- ment was the stock market, which has been consistently contrary. The stock index began a vigorous rise in December, just at the time when students of the economy were beginning to get worried about the recession. It had established a counterbeat in mid-1957, when the boom was at its most expansive point, by going into a half-year decline.

bittersweet reason

An optimist might exploit more hope out of the situation than it truly contains. He could reason that the stock market was anticipating the recession in 1957, and that its new attitude meant a business upturn. But the stock market is more characterized by eccentricity than by reason. There are no guarantees, and we must look beyond Wall Street to the factors that influence it and those that fail to move it.

soft shoulder

A number of inflationary forces had lost their power. Consumer spending, although stable, no longer had its hard bounce of 1955. Capital spending was tapering off from its 1956 exuberance; the Suez crisis stimulus was history; and government defense expenditures had dropped by a billion dollars from the second to the last quarter of 1957. Business profits last year totaled 42 billion dollars, a two per cent decline from 1956, and the last quarter of 1957 was

down eight per cent from 1956's final period. Industrial production had fallen 10 points from the index figure of 145 of mid-1957. But the elevated character of the recession is implicit in the index figure, when we consider that 100 represents the average industrial production of the not unprosperous 1947-1949 period.

categorical imperatives

Business optimism and pessimism can be neatly categorized into long-range and short-range planning. The demand for long-term capital increased by nearly two billion dollars from mid-1957; the appetite for quick financing fell by 885 million dollars during the same period.

regency play

The economy was in an interregnum. Capital spending was down and new governmental defense outlays had not yet taken wide effect. Part of the stock market optimism can be explained by its reliance on future considerations that are brighter than the banked fires of the steel mills, down below 60 per cent of capacity.

hark!

Walter Reuther was a winter herald for the spring's proliferation of wage demands, many of them automatic and more of them inevitable. New contracts will be negotiated in terms of heavy union demands. Deferred wage increases, written into contracts that will run through 1958, will affect four million workers. The rises range from one to 25 cents per hour, with the average at more than eight cents. Another four million workers will get more money if the consumer price index rises a predicted 1.5 per cent. Inflation is still a strong, if hidden, element in the price structure, which is still sloping slightly upward; the fall in the prices of durable goods is more than offset by food price increases. This, in turn, has a domino effect on wages, particularly in the case of union contracts with cost-of-living provisions.

four-handed game

Inflation and deflation had the lead roles in the economic drama. The price index was a compound of

both; wages were pressing upward and unemployment was increasing. February's figure was estimated at 4.5 million, and any early spring alleviation would be countered by the increase of job seekers coming from the schools in June. Predictions were putting the unemployment figure for the early summer of 1958 at about six million. The employed were preparing to complain that their wages were losing buying power; the unemployed would express themselves more bluntly about the ironies of economics.

floater policy

The consumer, who had been buying staunchly in the face of business pessimism, had finally caught a small amount of gloom. He was feeling less expansive about his future spending, and he had already reduced slightly his purchases of many durable goods. But he was buying all other things actively enough and refusing to permit any perceptible downward revision of his standard of living. He had bought life insurance policies with a face value of 66.5 billion dollars in 1957, 11.2 billions more than the year before. He would insure his economic future if he kept his purchases moving with that rhythm.

* * *

capital whisper

WASHINGTON—The Administration's attitude toward the current economic recession is one of speaking softly, but carrying the big stick. The President, on the advice of his economic advisers, continues to stick to his earlier predictions that an upturn will begin shortly after mid-year. At the same time, the public works program, of which the two-billion-dollar Post Office outlay is an earlier-than-expected beginning, is being unrolled. Estimates of the number of unemployed have fallen consistently short by a million; and the whisper now is that six million unemployed by July is a strong possibility.

built-in inflation

This is a recession with a built-in inflation. No general price decline is in prospect, which continues to hurt those whose incomes have not been affected.

A federal budget of at least 75 billion dollars is almost a certainty, but declining tax receipts, also almost a certainty, will produce a deficit larger than the Administration would like. A tax cut, considered highly improbable only six weeks ago, now appears to be very probable, which will mean more deficit spending. Inflation again rears its head, and we are all on such familiar terms with it by now that no one seems to mind very much any more.

bargaining point

The unions have apparently decided the one way to get out of the recession is to increase the purchasing power of the working man—i.e. higher wages. Collective bargaining negotiations will be rough this spring, and the unions will get at least part of what they are demanding. When companies like Union Carbide cancel construction of new facilities at the foundation stage, it is reasonable to assume that the business community is not too confident about the immediate economic future.

significant developments

Chances for a summit meeting got a big boost from Secretary Dulles' announcement that a ministerial level pre-meeting would not be necessary. The successful launching of our own satellite was outweighed by significant and unfavorable developments in North Africa and in the Middle East. Step by step, the Western positions of strength in these areas are being undermined. And while this does not mean that the Russians can step in, it does mean that NATO cannot count on pincer forces in the East.

neutral blocs

The union of Egypt and Syria, with Yemen also associated, represents a new neutral bloc. Jordan and Iraq, with Saudi Arabia associated, represents the preview of still another bloc. The French action in North Africa is already pushing Tunisia into neutrality and threatens to spread resentment into Morocco as well. A third neutral bloc is thus definitely in the offing. ■

WHAT MAKES WAGE DIFFERENCES?

Geography and social institutions, as well as demand and supply are involved

by Mark Leiserson

How do we explain wage differences? Why do wages for the same occupation tend to be 30 per cent higher in the Northwest than in the South? Why are the average hourly earnings of unskilled workers over 50 per cent higher in some industries than in others?

Traditional economic theory, which looked upon wages as simply the "price of labor," explained wage differences solely in terms of the demand for and supply of labor. Associated with this attractively simple wage theory was the notion that the competitive market mechanism generally produces the most efficient use of labor.

According to this view, union activity in the labor market was either pernicious or, at best, useless—a view which, judging from the growth of unions in the last 50 years, workers have not accepted. On the other hand, recent research has not provided us with clear and unequivocal conclusions concerning the impact of unionism on wage differences. We simply do not know what the impact of unions on wages is.

We do know, however, that even in nonunionized labor markets, there are often wage differentials which are too large and enduring to be comfortably explained in terms of competitive market criteria. It is apparently quite common for the wage rates of half of the employed at a single occupation in a single city to differ by more than 15 to 25 per cent from the average wage for that occupation in that area. Instead of being the norm as might be expected in a competitive market, occupational wage uniformity seems to be the exception. As a result, economists are looking for the cause of wage differences in

the "structures" of wage relationships that are relatively independent of short-run changes in supply and demand.

Viewed in this way, a most significant feature of the U.S. wage differential structure is its stability. The relative position of an occupation, industry or region when ranked according to average earnings does not usually change substantially over relatively long periods.

For example, U.S. Bureau of the Census data on the income of experienced skilled male workers shows that between 1939 and 1949 only five out of 23 skilled occupations showed a significant change in position when ranked according to average annual earnings. Even more interesting, a study of annual earnings in 84 manufacturing industries revealed that two-thirds of the 21 highest wage industries in 1899 were also among the top 21 in 1947. With respect to regional wage variations, the low wage character of the Southeast as well as the relatively high wages of the Northwest have been a long-standing feature of the United States' economy.

Of course, it is true that, in spite of this over-all impression of relative stability, considerable changes have taken place in the national wage structure. There has, for example, been an over-all narrowing of wage differentials in percentage terms. This trend is especially marked for skill differentials, with the average wage differential between skilled and unskilled workers in manufacturing dropping from more than 100 per cent to less than 40 per cent in the last 50 years. Similarly, there seems to be a continuing decline in the North-South wage differential.

Much of the difficulty with such generalizations stems from the fact that the statistical evidence necessarily consists of "averages" —and rather gross averages at that. The range of wages *within* any of these broad occupational, industrial or regional groupings is often as great or greater than the average differences among them. Nor is it always clear what type of differential we are talking about. The low wage level of the South, for example, is inevitably associated with the relatively high proportion of employment in low-wage industries. This makes it difficult to tell what causes what. Are wages low because of the prevalence of low-wage industries, or do you have low-wage industries because the regional wage level is low?

Efforts to isolate the most important factors explaining wage differentials have not been alto-

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gether successful. Still, it is significant that there is no evidence that unions exert a dominant *independent* influence on the wage structure. Unions appear to be only one of a variety of factors affecting wage differentials, and, in most cases, they are by no means the most important one.

Skill differentials

Of these other factors, the role of rural areas as a net source of manpower to urban centers seems to be particularly important in explaining regional wage variations. To a large extent, the low wages of the South may be attributed to the relatively low degree of urbanization and the depressing influence of the large supply of unskilled labor flowing from the rural areas of the region—an influence aggravated, of course, by racial discrimination. This would explain the fact that the North-South differential is greatest for unskilled workers and that skill differentials generally are wider in the South than in other regions.

There are, of course, other reasons why wages tend to be higher in urban areas. The concentration of the higher paying durable goods industries and of large firms in the more populous centers cannot be left out of account. It is because all these factors are likely to be correlated with the degree of unionization that it is difficult to isolate the independent effect of union power. One conclusion that seems justified, however, is that regional wage differences are deeply rooted in fundamental structural characteristics of our economy.

But we do not know very much concerning the forces operating on wage differentials within the industrial structure itself. Attempts to relate wage changes to changes in physical productivity have produced results which, at present, are inconclusive. The same is true of efforts to measure the importance of unionization on interindustry differentials.

With regard to occupational wage differences, the sluggish or even total lack of response of occupational wage rates to supply and demand influences suggest that sociological and institutional influences play a key role in this area. Many shifts in the occupational composition of the work forces in a firm or industry can be and have been accomplished by changes in job content, upgrading of skills and variations in hiring standards without seriously changing traditional wage *relationships*.

From the foregoing, it is obvious that in spite of the abundance of empirical evidence on wage structure and the operation of labor markets dredged up by

economists and statisticians, we are still a long way from being able to formulate definitive conclusions in these areas. On the other hand, accumulation of factual evidence on the behavior of workers and wages has forced increased recognition of the limitations involved in analyzing the pricing and allocation of labor services in terms of the competitive market. The distinction between "economic" and "noneconomic" forces has become less rigid. So has the contrast often drawn between the "natural" operation of the market and the "power" influences of organized groups. The realities of the labor market make it plain that both employers and workers are always motivated by a complex amalgam of individual and group interests.

"Alien" element

In this light, the rise of labor unions can be interpreted as the formal organization of group interests influencing worker behavior even in nonunion situations, rather than as the introduction of a wholly new or "alien" element affecting wages and employment. Combining this with the fact that labor organizations, in order to survive, cannot, in general, ignore the individual responses of workers or employers, it is not surprising that it is difficult to discover the independent impact of unions on the wage structure. Furthermore, it becomes understandable that union effectiveness is most apparent in the elimination of "irrational" personal differentials within a firm or bargaining area—precisely in those circumstances where common group criteria can be most easily formulated and imposed.

The recognition of the distinctly "social" character of wage relationships and the importance of common or group values in influencing the behavior of participants in the labor market has made necessary a reconstruction of wage theory on a far broader, more comprehensive basis. So far, only a few faltering steps have been taken in this direction. ■

Art for Earth's Sake

A HOLLYWOOD PRODUCER, extremely adept at synoptic reading, decided to film one of the world's great literary classics. This would be his supreme answer to those critics who had labeled him an overgrown penny arcade boss. He asked an aide for an opinion of the film's script, and received this answer: "Too caustic." Determined that art should have its way, the mogul replied: "I don't care how *costly* the production is, I'm still going to produce it."

Superhuman Relations

DRAWINGS BY

O'Rom

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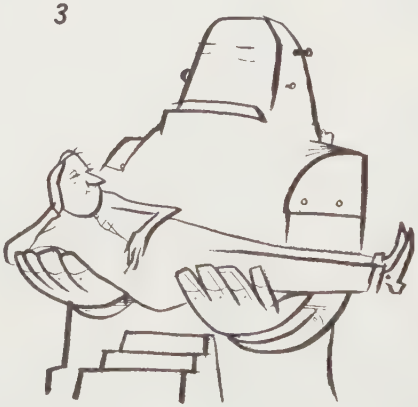

Put yourself in the hands of the superhuman relations engineers.

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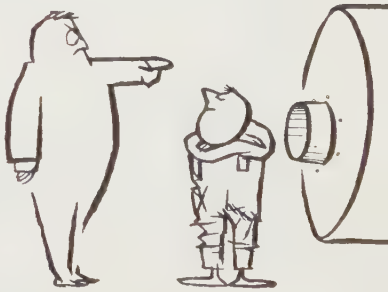

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Take your people into your confidence. When you've lost a contract that meant jobs for a third of your staff, tell them right away. Pick out a plump vice president who can be made responsible for the loss and let everybody know what a dunderhead he really is.

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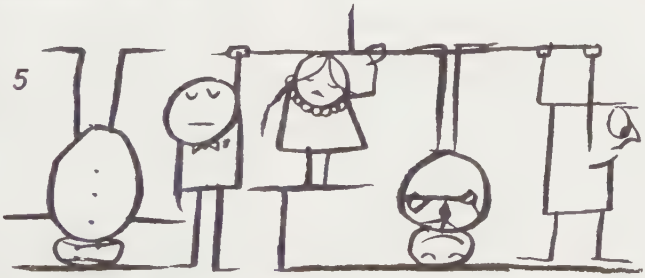


Establish an organizational structure where everybody is happy conforming to everybody. You can set up a table of organization that puts everybody on the same level.

6

Spread happiness.
Regrind grouchers into grinners, or fire them!

The proliferation of scholarship programs creates problems that need constant assessment and restudy

Another Look at Scholarships

by Dr. Carroll V. Newsom

WHEN I entered college nearly 40 years ago, I could hardly imagine that scholarships would someday become a fit subject for newspaper headlines. Today, announcements of new scholarship programs not only make the front pages, but the adequacy or inadequacy of such programs is debated within the highest Executive and Legislative chambers of the government. Public interest in scholarships, which was once largely confined to academic circles, now soars almost as high as men's hopes to see the conquest of space within our lifetime. One might say that scholarships, like rocketry, thanks to the forward thrust of the post-Sputnik flurry, have achieved a sudden notoriety that overshadows their history of growth and development.

Scholarships are not new. Most college bulletins of 50 years ago told of the availability of small scholarships to sons of ministers and missionaries and to a few other miscellaneous categories of students. Some of the better endowed colleges and universities had a limited number of scholarships to be awarded on a highly competitive basis.

The availability of scholarships in large numbers, however, is a new phenomenon upon the educational horizon, a development which received a remarkable stimulus from the program of educational benefits made available by the federal government to veterans of World War II. According to recent estimates, slightly more than one out of every five college students today is already a scholarship holder. In recent years many corporations have created programs of scholarships for children of employees or for various categories of students having special interests. Scholarships have also

been made available by certain labor groups, by individuals and by several philanthropic organizations. Several states, notably New York, provide scholarships, (the figure is now 6,029 per year) to a sizable number of outstanding high school graduates. Now a large federal scholarship program is being debated within Congress.

The greatest number of scholarships is still provided by educational institutions from funds under their own control. These funds, with minor exceptions, include contributions from alumni, income from endowments and allocations from the operating budget of the institution. At the present time, an institution may award scholarships to as many as 20 per cent of its students; a faculty committee in one Eastern university suggested recently that the percentage should be increased to 30 per cent or even 40 per cent.

It is still too early to be able to make a completely fair evaluation of these vast programs of cash subsidies to students within certain selected categories. In fact, the subject of "scholarships" always causes heated debate within any assembly of educational administrators.

From the point of view of the student, it must be assumed that he appreciates the financial assistance that a scholarship provides. Nothing that I say must be interpreted as minimizing the significance of scholarships in the lives of many students. However, it would be interesting to know what percentage of students now going to college on scholarships would attend if scholarship aid were not available. When I posed this question recently before a group of college and university administrators, the estimates given as answers ranged from 90 per cent to 50 per cent, with an average of about 80 per cent. If such guesses have any validity, the large scholarship programs now in vogue make a difference of perhaps three or four per cent in the college enrollment of this country.

Although financial difficulties are responsible for the fact that *some* qualified students do not go to college, it is probable that lack of motivation is the dominant cause in the case of a considerable majority of such students. Byron S. Hollinshead, in his book *Who Should Go to College,* published in 1952, concludes, "Making rough estimates, we may say that, of the superior fourth of our youth, 40 per cent are not sufficiently motivated to go beyond high school, 20 per cent would go if they had financial assistance and 40 per cent go under present conditions."

Adapted from a recent address before the New York Academy of Public Education by Carroll V. Newsom, President of New York University.

Modern students, by contrast with those of 30 years ago, do not borrow money to finance their education. In 1954, for example, the U. S. Office of Education reported the availability of loan funds for college students in the amount of approximately 50 billion dollars, but only one-fifth of this sum was actually on loan. The reason for the present hesitation of college students to request loans in case of financial need is not clear, especially in an age when it is common to purchase almost everything on borrowed money. Many projects are now being planned to encourage more students to borrow from the many college loan funds that are available and virtually unused.

Enviable opportunities

A very important consequence of the large scholarship programs now in existence is the fact that the very able students who can win scholarships are becoming more selective in their choice of institution. A small number of the so-called prestige institutions are now deluged with applications, whereas the majority of very fine colleges and universities is finding it very difficult to attract more than a few outstanding students. Such a result is not without value; in fact, some scholarship holders, who previously would have been restricted in their studies, now gain admission to an environment that provides them enviable opportunities for the cultivation of their talents. On the other hand, a student holding a scholarship that will serve as the key to unlock the door of any college or university in the land may select an institution with a program that is utterly incompatible with his interests and abilities; this happens all too frequently.

From the point of view of the colleges and universities, existing scholarship programs have introduced problems of a critical nature. Recruiting campaigns for students have been stepped up to the highest level in history, for each institution wants its fair share of able students. Some highly reputable private institutions have found it impossible to maintain the pace, and their administrators are discouraged as they look to the future. A very outstanding student may receive offers from several institutions, and stories are told of an occasional scholarship holder who graduates from college with a substantial sum of money in his pocket; however, this type of abuse of the system is being corrected.

Critical situation

Probably a more critical situation arises, especially for private institutions, in connection with the manner in which scholarship

funds are obtained. Colleges and universities generally have limited endowment funds earmarked specifically for scholarships; moreover, cash contributions from alumni and others make possible only limited scholarship programs. Thus, in a typical private institution, an allocation of money for scholarships is made directly from the operating budget. The operating budget is composed essentially of two parts—namely, income from endowment funds and income from tuition. Since the income from endowment funds is subject to only slight variation from year to year, it follows that an increase in scholarship funds requires an increase in tuition.

A recent article in *The New York Times,* in reference to a well-known college, reads as follows: "Tuition in the College of Arts and Sciences will rise from $750 to $950. . . .Part of the increase will go to higher salaries and another to increase the scholarship program." Thus, as this news item implies, some students are being charged a higher price in order that additional funds will be available for distribution to other students. The procedure is a novel illustration of the "share the wealth" philosophy. It would be interesting to know what percentage of recent tuition increases in private colleges and universities has been necessitated by increased scholarship programs. Certainly the development of improved salary scales in the private colleges and universities is being held back materially by the growth of scholarship programs.

"The last straw"

Scholarships awarded to students in a college by an agency outside the institution have the fault generally of providing no real assistance to the college, for a student's tuition pays only a part of the cost of his education. Some industrial corporations and other agencies have rectified this situation by paying a "cost of education" bonus to the institution selected by a scholarship holder; this, however, is not the common procedure. Thus, as federal, state and many corporate scholarship programs increase in size, private institutions selected by scholarship holders see their financial predicament magnifying.

Unfortunately, the plight of these same institutions is intensified still more by a growing tendency on the part of philanthropy to support scholarship programs in preference to direct financial aid to the institutions concerned. Recently, a university administrator turned to me, as he read of proposed federal scholarship programs, and said, "This is the last straw; private education is finished."

The administration of scholarship programs involves problems of great complexity. The art of measuring intelligence is still too little understood to permit educators to distinguish satisfactorily between the intelligence of two persons, especially when both obviously possess considerable ability. Such problems of administration of scholarship programs have been made even more complex in recent years by the introduction of the so-called need factor into the rating of students. In fact, formulas have been created to help determine financial need.

Growing dissatisfaction

Now, undoubtedly, the use of a formula makes possible some semblance of uniformity in the decisions made by institutions, but it would be foolish to claim that "financial need," vague as the term is, can actually be evaluated by formula. In truth, since the ceiling on income permitted of parents is very low in most "need-formulas," present trends in the awarding of scholarships are beginning to cause unreasonable hardship upon parents in the middle income brackets. One frequently hears the complaint that "Only the children of the very poor and the very rich can go to college." Such a statement involves exaggeration, but it is symptomatic of growing dissatisfaction with the manner in which scholarships are being awarded.

The modern ecologist has succeeded in convincing us of the delicate balance that exists in nature. Human tampering with that balance, necessary though it may be, can well produce unexpected difficulties that are virtually beyond man's capacity to solve. Undoubtedly a similar situation exists in our social and economic universe. The arbitrary creation of a group of young men and women who are to be favored with grants of money for their education, transcending the common social and economic struggles that characterize life in a normal sense, is certain to introduce elements of injustice and produce social and economic maladjustments that are very difficult to solve.

Now, this should not be taken to mean that large programs of scholarships are fundamentally wrong; it does mean that there must be continual analysis of the social, moral and economic implication of such programs in order that undesirable facets may be ameliorated as quickly as possible. It is my belief that we may have moved too rapidly in the creation of such programs in this country without adequate understanding of objectives and without knowing very much about the net consequences within our society. ■

Ezra Taft Benson— Honesty is not Popularity

IN THE game of word association, the American, rural or urban, is likely to append the word "problem" to the word "farm." Subject to the uncertainties of weather and market, the farmer has always had difficulties and he has been articulate about them. But is there really a farm problem?

Agriculture Secretary Ezra Taft Benson would surely insist that there was a problem, but he would disagree with the farmers about the character of it. Benson is an honorable man, as any farmer will say with Antonian inflection, and it is this honest expression of opinion that has made him so unpopular in the farmlands. For Benson has given the farmer more largess than any other Agriculture Secretary.

The Agriculture Department budget in fiscal 1952 was 1.1 billion dollars. In the fiscal year ending this June, it was nearly five billions, and the President has asked Congress for a mere 300 million dollars less for fiscal 1959. Benson found a three-billion-dollar agricultural surplus on the Department's books in 1952; he is now trying to clamber a seven-billion-dollar food mountain.

Benson applied modern management principles and biblical rectitude to his classic labors. Born in 1900 on a small Idaho farm, he ran his own flourishing farm before being called to Washington as Executive Secretary of the National Council of Farmer Cooperatives in 1939. His distinguished reputation as a farm marketing expert inspired lucrative job offers in industry, but he refused them to accept membership in the Council of the 12 Apostles of the Mormon Church. He had been a mis-

With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

sionary bringing Mormonism to Newcastle, England.

Benson's honesty impelled his belief that the laborer in nature's vineyard is worth no more than his hire. The clear-headed executive knew that the farms were overstaffed, but the marginal farmer resented therapy by annihilation.

It was, moreover, contravention of the cause-and-effect principle to approach the problem of the surplus by means of price supports. But the surplus can be regarded as the lesser evil when compared with the old insecurity of the farmer, who sold in a market where output often outran demand and bought in a market where demand often outran output.

One way of controlling the surplus was to reduce support prices. Benson wrung from Congress a change in the law that permitted him to cut the support price from 90 to 75 per cent of parity on the surplus-breeding crops. But important crops are still guaranteed prices just under 90 per cent.

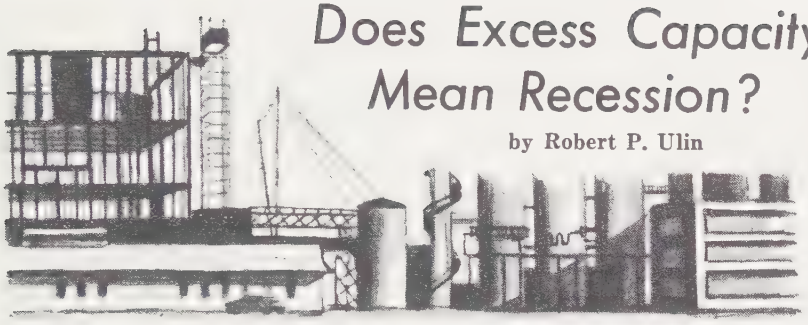
Soil Bank Program

Another possibility was the Soil Bank Program, which paid farmers not to plant crops. Benson, having paid out almost a billion dollars, is doubtful that the program will work. But the President's budget message asked for a refinement of the program, known as the conservation reserve.

Farmers have thrown eggs at Benson and critics have demanded that he be fired ever since he took office. Benson has done as good a job as the politics of the farm situation have permitted. He has been more honest than most of his critics; more nonirrigating crocodile tears have been poured onto the farms than any other controversy. Benson's sin has been to tell the truth.

He has defined the problem as superproductivity, essentially a positive factor in face of a growing world population; short-range losses can turn into long-term boons. His thesis about too many farmers is vindicated by the farmers' actions: three million have left the farms since 1940.

Are the crop subsidies a complete waste? From the point of the farmer, who would be worse off without them, the answer is "No." Much of the surplus has gone to poor countries at low prices, and if some other producer countries have been hurt, the good outweighs the bad. In case of war, the surplus would be welcome. And if, as the Gaither report indicates, we shall be spending large sums for civilian defense, would it not be wise to maintain large stores of agricultural products? The farm problem loses its sharp outline in the context of bigger problems.—D.F.



Does Excess Capacity Mean Recession?

by Robert P. Ulin

Economic progress and industrial research have given new meaning to a word that once connoted a deflationary slump

MANUFACTURING industry in the United States was operating at about 80 per cent of capacity at the end of 1957. Included in the idle one-fifth were efficient plant and equipment only recently installed. This is not only a striking contrast to the early postwar and Korean war years, when capacity was severely strained, but it represents a sharp decline in operations since the end of 1955 when the operating rate was above 90 per cent.

Still more striking is the ease with which the economy has adjusted to this lower rate of industrial operations. According to classic theory, the appearance of excess capacity means surplus goods and lower prices, a decline in the rate of return on investment and, shortly thereafter, a steep and prolonged decline in capital expenditures. The result is a severe recession in the economy generally. But in 1957, as excess capacity began to emerge, the usual strains did not appear with it. Prices were stable—in some cases, rising. Business capital expenditures began to flatten out, but remained close to record levels according to the quarterly reports of the U.S. Department of Commerce. General business activity continued to rise gently.

Although most forecasts now indicate a decline in capital investment during 1958 and some weakness in general business, there have been few suggestions that a "crash" is in the making. In fact, a "five per cent correction," to use one term, would be more typical of an inventory cycle than the more serious recessions that are supposed to be associated with overcapacity and declining investment. In other words, the 1958 economy is so much different from earlier situations that it can main-

tain extra manufacturing capacity without the classic consequences of falling prices and shrinking investments.

Factors involved

What are the factors that have led to a general acceptance of lower operating rates and higher margins of reserve capacity? How can they keep prices and investment at relatively high levels, even in the face of declining business activity?

(1) *The widespread expectation of long-term growth in the economy.* The larger business firms are now planning five, and even 10, years ahead. In the knowledge that population and living standards will show a considerable rise over this period, they feel safe in carrying relatively large amounts of capacity which will be needed for eventual growth. In the meantime it provides a reserve with which to meet sudden demands—either a boom or a defense emergency—or to permit the closing of less efficient units.

(2) *The steady pressure to modernize and cut costs.* Labor costs are rising every year, and at the same time customers are demanding higher standards of quality. The only way to meet these combined demands is to install new production equipment that reduces direct labor requirements and permits higher standards of work. Such new equipment almost always increases the rated capacity of a plant. But its *purpose* is to modernize and cut costs. Therefore, the investment will be made, under today's cost conditions, even though the additional capacity is not really needed.

(3) *The adequacy of cash resources.* In general, manufacturing companies have been able to raise the money needed for a high level of capital investment. Despite the tight money problems for small firms, the over-all flow of funds is at a high level. In manufacturing, most capital expenditures are financed out of profits and depreciation allowances. The total of these two items, sometimes referred to as "cash profits," has been rising during 1957. This has permitted the continuance of both modernization and expansion outlays without serious interruption, in marked contrast to the 1929 situation, when expenditures were heavily financed by speculative borrowing and collapsed along with the money markets. In 1954, the tax laws were revised to permit larger depreciation allowances, an important source of funds for continuing modernization.

(4) *The speed of technical advances resulting from research.*

Robert P. Ulin is a member of the McGraw-Hill economics staff.

Over the next two or three years, this may prove to be the most powerful of the forces contributing to a generally well-maintained level of capital investment. Many companies expect to make new investments, *even if business is declining,* to bring out new products or install new processes developed in research laboratories.

Furthermore, research programs act to prevent excess capacity from flooding the market with unwanted goods. When new products are developed, they usually cannot be produced in older facilities. Rather than attempt to compete with an outmoded product, the manufacturer who has extra capacity will usually attempt to convert it—or scrap the older facilities and build new ones. Organized research on a large scale means that companies are concentrating on new and better products. This form of competition is less destructive than the old price-cutting competition on standard goods.

Effect of research

We still see price cuts on such *commodities* as wheat or copper, where there is no way to differentiate one seller's product from another's. But the effect of research is to make manufactured goods less and less like commodities, and more and more like specially engineered products—each with its own features and a price on those features. Thus, in a company where a large percentage of sales consists of new products, the old laws about the business cycle do not apply very closely to its pricing or investment policies.

Consider the problem of new capacity through the eyes of an executive at a research-minded company. It may be well to review what kind of a company this is likely to be. Almost certainly it is a large company, since research and development require large amounts of capital, on which no return can be expected for several years ahead. [See *Industrial Research Pays Its Way,* CHALLENGE, January, 1958, page 42]. It may be in the chemical or electrical industries, aircraft or machinery—all fields in which technical advance has been very rapid. It may be in consumer goods, where basic technical changes occur more slowly, but where research does lead to a variety of smaller changes in an almost continuous stream.

Research is steadily making the company's manufacturing facilities obsolete as products change and as new processes develop. If the company is not to fall behind, it must face the necessity of a continuing program of capital replacement. Probably the new plants will be designed to make

new products, and older plants will be gradually phased out as their product volume diminishes. But in any case, large capital expenditures will be made every year. The chemical industry has never spent less than one billion dollars in recent years irrespective of business fluctuations; its annual investment in the 1960s will probably be more than two billions at any time except during a disastrous depression.

The steady turnover of products makes this turnover of capital inevitable. Other industries are not so dominated by research as chemicals, but as they increase their research programs, they will become more like the chemical industry with regard to capital investment and less like older cyclical industries.

Research, moreover, increases the size and variety of the company's product line. One of the most difficult problems of management is deciding which new products to develop and which old products to drop. But, inevitably, the number of products will increase. This means more capacity over-all than a single-product company needs. Despite the best efforts of forecasters, it is not always possible to tell accurately which product will have the most volume. Thus, capacity reserves must be maintained at each of the plants producing different types of plastics, packaging materials or automobile models—if a company wishes to cover its market completely. The fact that reserve capacity exists for one product does not always mean it is available for one of the newer, different products. Even in good times, a research-minded company will have some idle capacity.

Finally, research introduces an unknown in the capacity calculation—the possibility of future advances that cannot now be predicted. Most managements try to deal with this problem by building general purpose capacity ahead of present needs; thus only the more specialized facilities will have to be built from scratch.

Freedom to experiment

Some large companies are willing to operate new plants at a low percentage of capacity in the first year or two. When a product design or a manufacturing process is completely new, it generally does not work well until a year or more has been spent in correcting defects. In some cases—like the metals magnesium and titanium, or atomic reactors—the operation is so new that manufacturing plants are being run chiefly to gain experience.

This freedom to experiment is a tremendous advantage in achieving technical leadership. But it is something that only very large

companies can afford. The smaller company generally must get the most out of its available capital by investing in facilities that can be operated close to capacity, and it must confine its experiments to small-scale projects.

Since small and medium-size business firms account for the major part of American industry, most business executives will still express the opinion that it is better to operate close to full capacity. Even in large firms, the average management is still interested primarily in achieving satisfactory profits for the current year. Therefore, as recently as 1956, a McGraw-Hill survey showed that manufacturing companies, on the average, prefer to operate around 90 per cent of capacity—which allows only a 10 per cent cushion for emergencies.

However, the growing interest in long-range planning, research and development has undoubtedly had some effect; a few years ago the average preferred rate might have been close to 100 per cent. And in the industries where markets are growing and technical advance is rapid, there is an increasing tendency on the part of the more progressive firms to accept lower operating rates as one of the costs of continuous development.

Thus the concept of capacity itself has changed. Whether a given facility is truly in excess does not depend solely on its being idle. If the product it makes is obsolete, then its capacity is not merely excess; it is useless. If, however, machines are kept because they might be needed in an emergency, then this temporarily unused capacity is fulfilling a function in a long-range sense and can be justified on the same terms as insurance. Thus, the presently unused capacity of one-fifth is not such a dangerous factor in the economy as it would have been a generation ago.

Once a company assumes the costs of a large research and development program, and of carrying extra plant capacity as part of this development, it will naturally try to pass these costs along in its prices. Where they reflect this technical situation, higher prices paid by consumers are really the price of innovation—of continuous product improvement and new product development.

For the economy as a whole, some temporary "overcapacity" is the price of progress. But this new capacity, combined with an expanded research effort, has greatly increased our potential for economic growth. Meanwhile, our economy is clearly more stable than it would have been if excess capacity consisted mostly of facilities to produce standard commodities. ■

William H. Beveridge

Member, House of Lords;
Author of the Beveridge Plan

Individual Welfare and The Welfare State

Q *As author of the Beveridge Plan, you are generally looked upon as one of the principal architects of the welfare state. Do you regard this as a compliment?*

A Of course, I believe that the state ought to concern itself with the welfare of its citizens. And in my time, I have, I suppose, done something to extend the number of things the state does in this field.

Q *You are aware, of course, that the term "welfare state" has unfavorable connotations in some quarters.*

A I never use the term "welfare state" myself because it suggests, to some people at any rate, that all anyone has to do for welfare is to get it from the state. In my opinion, that is quite wrong. Of course, I think that a man's welfare does partly depend on certain things that the state can do for him, but it depends very much more upon what he does for himself and also upon what he does to help his fellow man.

Q *What were the basic social ills that the Beveridge Plan was designed to eliminate?*

A The main purpose of the Beveridge Plan was to make sure, by a system of social insurance (that is, through contributions by the employer, the individual employee and the state), that no man or woman need ever be in want. That is to say, it was designed to provide everybody

with the basic necessities for living—food, clothing and so forth. The idea was that even when a man wasn't working—because of sickness, unemployment or old age—social insurance would still guarantee him enough money to buy the necessities of life. Also, through a free health service for all, the Plan sought to provide him with the means of keeping well, insofar as doctoring can do this.

Q *But this money was not intended to provide a man with all that he would like to have or all that he would like to keep for his old age, was it?*

A No, indeed. Even with state social insurance as a basis, I still want men to go on thinking for themselves, to feel responsible for whatever additional provision they may choose to make for their old age. One man might say to himself, "I'll spend all the money I have now and let the future take care of itself. When the time comes, I shall make do with whatever the state lets me have." Others will say, "I'd rather spend less now and have more for my children and myself later when I may need it more." Certainly, I want this decision to remain the personal responsibility of the individual. I do not believe it should be assumed by the state.

" 'Essentials' which the state provides for everyone can rise"

Q *In other words, the function of the state, as the Beveridge Plan envisaged it, was to provide individuals with the minimum necessities of life.*

A Not necessarily. The "essentials" which the state provides for everybody *can* rise. They may include more than the "bare" minimum required to keep a man alive. On the other hand, the compulsory welfare standard of the state should never include all that a man may wish for in the way of material comfort—not if we want people to think about their own lives and their own spending.

Q *Do you feel that the primary objectives of the Beveridge Plan have been realized?*

A Not all of them. In this connection, there is one feature of the Beveridge Plan I should like to emphasize. What you got from social security through the Plan you got as a right—because—among other things, you had contributed. You got your share whether you needed

it or not. If, for example, you had saved so much money that you didn't need it, you still got it. In other words, you didn't have to prove you were poor—you didn't have to be a beggar. The thing that I hate more than anything else is helping people only on condition that they haven't helped themselves. Such a philosophy of social reform results in the destruction of personal liberty and responsibility. That is why I hoped when the Beveridge Report was passed and accepted, that the "means test" would disappear from social welfare legislation.

Q *But this hasn't happened?*

A No, it hasn't, and I regard that as a great failure in one of the chief aims of the Beveridge Plan. This is not due to anything wrong in the Plan itself; rather, it is a consequence of the continuous rise in prices since the war. What was a pound when the Beveridge Plan was conceived is now worth six shillings or less. As a result, national assistance—giving people money because they are poor—is still needed on a large scale. The means test, instead of disappearing, still plays a prominent part in our welfare legislation.

"Stable money is the basis of economic liberty and responsibility"

Q *And the reason for this is inflation.*

A That is right. Some people talk about money as the root of all evil. I think that it is more important to realize that stable money is the essential basis of economic liberty and responsibility. You can't expect a man to save if he doesn't know whether his pound is going to be worth a pound, or six shillings, or sixpence when he comes to need it. Next to national defense and the maintenance of order, securing stable money is the most important duty of the state.

Q *And you don't feel that the state has fulfilled this function in post-war Britain?*

A There can be no question about it. Certainly, my money isn't worth what it used to be. But everybody is feeling the impact of inflation. Of course, the big question is: How do you stop inflation?

Q *Well, how* do *you stop inflation?*

A I am not going to try to answer that one today because it is a very

complicated question. In fact, my view is that the right way of stopping inflation is to have a comprehensive public inquiry. Such an inquiry would show whose actions are causing inflation—whether it is the trade unions, the employers, the bankers or what have you. Whoever it is will have to stop doing whatever it is that causes inflation.

Q *But at the moment we don't know who or what is responsible?*

A Well, I think I know, but the way to convince people is to hold a really good inquiry which shows, among other things, the misery that inflation is causing all over the country. All the old people left destitute; all the people who saved for themselves left in a state of utter misery. I think if I brought that home, I could then persuade the people who are responsible for inflation to do something about it.

"I believe that all power has to be used responsibly"

Q *Well, without naming names, why do you regard it so essential that large organizations, like labor unions and big businesses—organizations which enjoy considerable power over costs and prices in wide areas of economic activity—should exercise social responsibility? Or, to put it another way, why should these organizations* not *exercise all the power which they enjoy?*

A Let us take the trade unions first. When the government first announced its full employment policy, I pointed out to my friends—and they have always seemed my friends—in the trade unions, that there was a risk that full employment might lead to inflation if they didn't alter their methods of bargaining for wages.

Q *And the same thing goes for other large organizations?*

A Of course, I will say exactly the same thing to the employers' associations, the trusts, and so on. Indeed, that is one of the things that I hope a public inquiry would bring out—that the unrestricted bargaining power for wages possessed by strongly organized unions and the bargaining power for prices possessed by employers may result in destroying the value of money. I believe that all power has to be used responsibly.

Q *Well, let us take that a little further. Can one expect powerful or-*

ganizations like labor unions and industrial complexes to exercise such responsibility of their own free will? Or would you favor specific legislation restricting the freedom of such groups?

A No, I would not—not as a first step. I do not put my main trust in legislation because I believe in the ultimate common sense of the British people—and, I hope I am right in believing it of the American people, too. I have done a great deal in this country, although I have never been in a position of power and have never been able to order people about. What I have done I have done by reasoning and by bringing the necessary facts before the public. I believe that the same methods—sound reasoning and accurate facts—will lead the British (and, I hope, American) people to enact the necessary anti-inflation measures by agreed rather than dictatorial legislation.

Q *Lord Beveridge, your entire life has been devoted to devising ways and means of abolishing want. Do you feel that this is still the primary social problem?*

A Well, no. When I was at Oxford 60 years ago, the main problem did seem to be poverty. The advances of science and our increasing control over nature means that poverty need no longer be a problem. In fact, it is no longer the main problem. The crucial question today is to reconcile the advances of social welfare with a continuation of individual liberty and responsibility. I believe that liberty is as great and essential a want of the British people (and I hope the American people, too) as food is.

"You must have government to keep wrongdoers in order"

Q *Do you believe that in the last 15 years or so there has been a tendency to move away from liberty in the direction of state-administered welfare? Do you think that this is a general trend which holds true not only in Britain but in the rest of the industrialized world as well?*

A The basic problem is that power is very corrupting. People like to exercise power, and they like to increase their power. In a sense, of course, you cannot do without power. You must have government in order to keep wrongdoers in order. The essential thing is this: the person who has the power to send you to prison and to punish you, if he thinks you are doing wrong, should be subject to removal by a free vote

at an election every few years. Indeed, the existence of a free and secret vote constitutes the fundamental difference between the Communist and the free world.

Q *Doesn't this place a tremendous responsibility upon the man who does vote? After all, under the British and American systems of government, it is the voter who decides what the state shall administer for him and in what areas he will exercise personal choice.*

A Indeed, yes, the exercise of the vote in order to preserve liberty while advancing welfare is a responsibility of the individual. One of my objections to the welfare state is precisely that it makes people think of the state as a kind of fairy godmother, when in fact, it is their own creation and it is they who are responsible for seeing that it acts properly.

Q *Do you think that people are aware of this responsibility when they go to the polls?*

A I am not sure whether all the men and women who vote really take it seriously enough. They never vote for my party, the Liberals.

Q *Even so, you do believe that it is possible to reach the kind of synthesis between individual liberty and social welfare originally envisaged by the welfare plan?*

A Of course.

Q *There is nothing in the nature of our society which makes the realization of this ideal in any way fantastic?*

A I don't think so. I still believe in the ultimate common sense of the British people.

Q *What do you think we in the U. S. can learn, both positive and negative, from the way in which social welfare legislation has been carried out in Great Britain? After all, we have not moved nearly as far as you have in this general direction.*

A I am not going to tell you what you can learn. I think you should come and study us.

Q *Thank you, Lord Beveridge.* ■

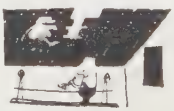
Everyday Economics

AMERICANS who intend to do business while abroad must state so at the time of their application for a visa. Foreign countries which waive visa requirements for tourists frequently require a special visa for businessmen. If you decide to mix business with pleasure after arriving in a country with only tourist credentials in your possession, be sure to check with the appropriate consular authorities as to whether there are any special requirements which must be met. Before going abroad, businessmen seeking information should contact either the Bureau of Foreign Commerce, an agency of the Department of Commerce, or the Foreign Commerce Department of the United States Chamber of Commerce.

A good cut

A MAJOR factor influencing the quality of a knife's blade is its method of manufacture. Forging or rolling, type of heat treatment, grinding procedure, finishing process—all these can alter the properties of blades otherwise identical in design and material. Another consideration is the hardness of the blade's steel, which is determined by its carbon content; a good blade should have a carbon content varying between 0.60 and 1.20 per cent. In questions of design, wide blades are good for carving hot meats while narrow blades seem more suitable for cold meats.

Crack financing



IF YOU are interested in obtaining a home improvement loan at very convenient terms, this information might be useful. Under Title I of the National Housing Act, the FHA is granted the power to underwrite loans made to homeowners for just this purpose. These so-called Title I loans are made by banks, savings and loan associations, finance companies and other lending institutions that

have contracts of insurance with the FHA. In order to qualify for this type of credit, you must own or be in the process of purchasing the property you wish to improve. Above all, it is imperative that you have a good credit record and a regular income. Before applying for the loan, you should first decide what type of work you want done—painting, plumbing, weatherproofing, heating, wiring, etc.—and then get an estimate of the cost from a reputable contractor or dealer in your community. When you have done all this, apply to the proper lending institution through the contractor or dealer that you have chosen for the job. Usually, he will have a working arrangement with the institution which will enable matters to be greatly expedited.

What's your name?

IN THE absence of a controlling statute, there is no legal reason why a person may not undertake a business venture under an assumed name. But the majority of states do, in fact, have statutes which regulate such activity. Therefore, the individual who plans to conduct a business under a fictitious name should consult an attorney to determine if his state has enacted what is called a Fictitious Names Act or Assumed Names Act. Failure to register an assumed name where such registration is required may often lead to a fine or imprisonment, or both. In some states, this oversight may forfeit a person's legal right to recover money owed to his concern.

Where to look

THE American Association for the Advancement of Science has recently published a pamphlet containing a list of cheap paperbound reprints of outstanding nontechnical scientific books. Published as a guide for interested teenagers, copies of *An Inexpensive Science Library* can be had for 10 cents by writing to AAAS, 1515 Massachusetts Ave., N. W., Washington 5, D. C.

Hard to boil

NEW CAR owners are advised to use a brake fluid that has a high boiling point. For most 1958 models, a temperature of 300° F. is a sufficient boiling point for normal driving conditions. However, in more severe circumstances, a minimum boiling point of 375° may be necessary. Failure to get the proper fluid will lead to the deterioration of your car's braking power.—L. B.

The giants in the American economy are growing, but there is still room in the skyscraper club for late arrivals

Is big business too BIG?

by Irwin M. Stelzer

ONE OF THE recurring issues in the running debate between "big business" and its critics has been the role, present and prospective, of big business in our economy. Just how important, relatively, are the few corporate giants? Are these behemoths increasing in size relative to other, smaller firms; and is "small business" increasingly being relegated to a position of little economic consequence?

Before we can successfully answer these questions, however, we must try to define what we mean by "industrial concentration." To do that a few concepts must be crystallized.

First, when we speak of "bigness," to which of the many measures of size are we referring? Is the biggest firm the one with the most employees? Or is the biggest the one with the highest sales, the most assets or the largest value added? Use of any one of these measures gives us only part of the picture. Volume of sales data, for example, ignores the extent of vertical integration, while asset data may be distorted by changes in the price level.

Second, it must be remembered that "bigness" is not necessarily synonomous with monopoly power. A big Florida hotel is subject to keener competition than is a much smaller hostelry in a one-hotel town. (Anyone who has enjoyed the accommodations relative-to-price of the former and suffered in the latter will confirm this, I am sure.)

Nor is concentration necessarily synonomous with market power, although it is certainly more meaningful than absolute size. Control of a large portion of the output of a product like paper clips, for which there are many close substitutes, such as staples, would not confer as significant

a degree of power over prices as would control of a product such as gasoline, for which there are few close substitutes. Similarly, ownership of the bulk of the assets of an industry into which entry by new enterprises is fairly easy does not confer a significant market advantage. Thus, efforts to organize trusts in the textile industry usually failed as soon as the trust attempted to exercise its "power." Increased prices would bring many small new firms into the industry, and prices would again be driven down.

What meaning, then, do the various statistics on concentration have? And why all the fuss? Given a proper definition of the industry, such data tell us, in a rough way, where we are headed. It is interesting that many of the groups who criticize these data as being virtually meaningless point with pride to the decline in, let us say, United States Steel's share of the total assets, employment and sales of the steel industry. Just as this decline is apparently a source of satisfaction to those who associate this structural change with an expectation of behavioral improvements (more competitive pricing, perhaps), so should an increase in concentration be a source of concern—a warning to the molders of public policy that an industry bears watching.

Further, and perhaps even more important, there are certain noneconomic implications of these data. The socio-political implications, for example, of having a large portion of the labor force employed by a handful of corporations cannot be ignored. In this day of corporate personalities, etc., it is certainly important for us—not as economists but as citizens—to avoid to the greatest extent possible a rapid increase in the control of the many by the few.

Given this background, let us review the state of our knowledge of industrial concentration.

The critical re-examination of our economic system, precipitated by the Great Depression of the 1930s, was quickly extended from the functioning of that system to an appraisal of its structure.

One of the products of the "agonizing reappraisal" was *The Modern Corporation and Private Property,* by A. A. Berle and Gardiner C. Means. This analysis of the place of big business in our economy examined the position of the 200 largest nonbanking corporations in 1929 and reached some interesting conclusions.

Nearly all of the 200 largest (42 railroads, 52 utilities, 106

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industrial firms) were found to have assets in excess of 100 million dollars, 15 had assets of over one billion dollars, and their combined assets totaled 81 billion dollars. They controlled about half (49.2 per cent) of all corporate wealth, received 43.2 per cent of the total income of all nonbanking corporations, and accounted for 22 per cent of total national wealth. Further, of the 573 independent corporations listed on the New York Stock Exchange in 1930, 130 had assets of over 100 million dollars—and these 130 controlled more than 80 per cent of the assets of all listed corporations. Thus, concluded Berle and Means, it is clear that our studies should be directed toward understanding the behavior of the few largest companies, which account for the bulk of economic activity in the United States.

Look into the future

Even more interesting is a look into the future made by these authors. Between 1909 and 1928, they found, the 200 largest corporations had grown at an annual rate of 5.4 per cent, compared with 2.0 per cent for all other corporations. This trend was deemed likely to continue because the large corporations were better adapted to all three methods for growth: they retained a larger portion of their incomes than did the smaller firms; they accounted for the great bulk (two-thirds) of all public offerings of new securities; and they were extremely active acquirers of other firms.

Have these projections been realized? Unfortunately, many of the studies done after the Berle and Means classic do not provide strictly comparable figures. In 1951, Professor M. A. Adelman, of the Massachusetts Institute of Technology, found that the share of total assets held by the 139 largest manufacturing companies had declined from 49.6 per cent in 1931 to 45.0 per cent in 1947. Although he believed that "concentration is not only great but is itself highly 'concentrated' "—the latter a reference to the structural differences between, let us say, the steel, automobile and chemical industries on the one hand, and the textile and residential construction industries on the other—Adelman concluded that "the extent of concentration shows no tendency to grow, and it may possibly be declining."

An interesting sidelight of this study was its finding that 75 corporate laboratories account for nearly one-half of the total number of professional research personnel. This led to the statement, "It is clear that most of the organized industrial research is carried on by a very tiny fraction

of all business firms, or even of all corporations."

In addition to Adelman's findings, we have those recently published by the Federal Trade Commission. Concentrating its attention on the relative importance of the 200 largest firms as measured by their share of total value of production, the staff of the Commission found that the top 200, which had accounted for 37.7 per cent of the total value of the product of all manufacturing industries in 1935, accounted for 40.5 per cent in 1950. The shares of the first five, 50 and 100 companies had increased, respectively, from 10.6, 26.2 and 32.4 per cent to 11.4, 26.6 and 33.3 per cent between 1935 and 1950. The report also noted that the top 15 *firms* operated a total of 1,305 separate *plants*, an average of 87 per firm.

Note, however, that this study of concentration in value of shipments does not necessarily contradict Adelman's study of concentration of business assets. It was to be expected that these data, representing as they do measurements of different things, would yield different results.

What, then, can one say about the present state of, and trend in, the role of big business in our economy? Out of the sometimes conflicting studies surveyed above a few tentative conclusions can apparently be drawn. First, the dominant position in our economy of a relative handful of corporations—let us say 200—cannot be denied. These firms account for almost half of corporate assets and the value of manufacturing output. Second, there are great differences in size and in concentration between different industries. A study by Dr. A. D. H. Kaplan revealed that in 1947, 116 industries had not a single establishment with as many as 500 employees, 221 had one or more such big plants but produced the bulk of their output in plants of under 500 employees, and 115 had more than half of their employment and output in plants with 500 or more employees. The number of employees per establishment in the top 10 manufacturing industries ranged from 20, in sawmills and planing mills, to 2,329 in steel works and rolling mills. A third possible conclusion is that there appears to be no clear-cut trend—either upward or downward—in the over-all level of industrial concentration.

Behavior and structure

What are the implications of these data? It is here that one must beware of leaping to conclusions regarding *behavior* from data relating solely to *structure.* Can one say, for example, that the relatively important role of the big companies means that the age

of economic opportunity for the so-called "little fellow" is at an end? Certainly, one would not contend that there is any real meaningfulness to a mechanic's "right" to start his own automobile manufacturing company. Yet, on an over-all basis, is it not significant that the number of business enterprises per 1,000 persons increased from 15.4 to 18.0 in the first half of the 20th century?

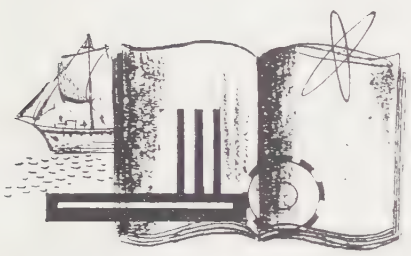
Further, we must realize that the ability of some 200 firms to maintain what may be termed as a position of dominance over a long period should be considered in light of the composition of that group. Had the *same* firms, year in and year out, maintained their position, we would be inclined to feel that a certain rigidity had come to characterize the economy. In fact, however, such has not been the case. When we compare the list of the 100 largest industrials in 1909, as did Kaplan, with the list of the 100 largest in 1948, we find that only 36 of those on the earlier list are included in the 1948 tabulation. Of the top 10 in 1948, five had no independent existence on the 1909 list, and three others were ranked 16th, 27th and 86th.

Although the rate of entry into the select circle appears to be diminishing with time, it would seem safe to conclude that there is some dynamic ebb and flow of position within the "big business" group. Inclusion among the giants today does not necessarily guarantee inclusion 50 years hence—although it will help. ■

Regulation Rather than Dissolution

"ONE OF THE main troubles was the fact that the men who saw the evils and who tried to remedy them attempted to work in two wholly different ways, and the great majority of them in a way that offered little promise of real betterment. They tried (by the Sherman law method) to bolster up an individualism already proved to be both futile and mischievous; *to remedy by more individualism the concentration that was the inevitable result of already existing individualism.* They saw the evil done by the big combinations, and sought to remedy it by destroying them and restoring the country to the economic conditions of the middle of the 19th century. This was a hopeless effort, and those who went into it, although they regarded themselves as radical progressives, really represented a form of sincere rural toryism.

On the other hand, a few men recognized that corporations and combinations had become indispensable in the business world, that it was folly to try to prohibit them, but that it was also folly to leave them without thoroughgoing control. They realized that the government must now interfere to protect labor and subordinate the big corporation to the public welfare."—*Theodore Roosevelt*



The Permanent Frontier: No. 6

Economic expansion forces the Jeffersonians to modify their philosophy to meet changing needs

WHEN, after 12 years of Federalist rule, the Jeffersonian Republicans came into power in 1801, the event was widely interpreted as the first "political revolution" in America's short history as a nation. For, Jefferson and his party represented the "little" man—the small, independent farmer, the small businessman and the "radical" intellectuals of the day. These people now took over from a party which the historians Morison and Commager have described as an "oligarchy of wealth and talent insufficiently broad or deep for permanent polity." From the merchants of New England whose interests dominated the country's founding years, power passed into the hands of the official opponents of centralized authority—men who believed, with Adam Smith and the "leftists" of their day, that "he governs best, who governs least." Men of property and wealth, not only in America but also in the chancelleries of Europe, saw in their victory a sign of the imminent collapse of the young nation. Friends of the new government, on the other hand, predicted an end to "tyrannical" government and the fiscal policies adopted by Hamilton. But both friends and foes were profoundly mistaken.

In the first place, there is good reason to believe that the accession of Jefferson's Republicans averted serious trouble at home and abroad. Hamilton and the New England Federalists had taken every opportunity to provoke war with France—partly in reprisal for her spoliations of American commerce and partly to discredit the pro-French Republican party. While President Adams succeeded in averting war, our relations with France reached such a critical stage that extensive and expensive war preparations were deemed necessary. And the means devised to finance these preparations were anything but popular. Indeed, a direct tax on slaves and real estate so aroused

the Republican South that for the second time during the Federalist regime the militia had to be called out to suppress insurrection. In an effort to silence mounting opposition, a Federalist Congress passed the famous Alien and Sedition Laws (1798) which empowered the President to deport aliens and impose fines and imprisonment on citizens who exercised their constitutional rights and combined to oppose or criticize government measures. The result of these measures was to bring many of the Southern states to the verge of revolution. It was at this time that the Virginia and Kentucky Resolutions (1799) first enunciated the famous principle of nullification—the doctrine that a state could declare a federal statute null and void. Thus, more than 60 years before the Civil War, the first organized states' rights movement had been formed and the revolutionary principle of nullification had been proclaimed.

Theories into practice

And, of course, it is true that the old differences—sectionalism versus nationalism, Jeffersonian laissez faire versus Federalist interventionism, the Republican emphasis upon agriculture versus the Federalist emphasis upon manufacturing and trade—took on new and greater dimensions. For, the Republicans were now put into a position where they could put their theories into practice. Before their accession to power, the Jeffersonians had opposed the Federalist drive towards national centralization, state protection of infant industries and "sound" money. But the next 10 years were to demonstrate to even the most ardent Jeffersonian (i.e. Jefferson) that the old economic doctrines of 18th century liberalism would have to be modified if the tremendous potential resources of the new nation were to be fully realized. And so it was that the administration of Jefferson, a leading exponent of states' rights and limited government, would be marked by territorial expansion and a marked extension in the central government's powers.

The Louisiana Purchase (1803), for example, while it enabled the government to obtain possession of some 529,911,680 acres for a bargain price, including interest, of 27,267,622 dollars (a cost of five cents an acre), also vastly increased the powers of the federal government. For, these new territories were the property of the federal government and not of the states, and their future economic growth and development was dependent upon federal ad-

This is the sixth article of a series in CHALLENGE which deals with the history and development of the United States economy.

ministration. The needs of these tremendous new Western possessions were to create new government activities which Jefferson, in response to the Western wing of his party, later known as the War Hawks, was forced to initiate.

A fiscal miracle

And yet, in a way, Jefferson remained loyal to his theory of the "negative" state. The hated Alien and Sedition Laws passed by the Federalists expired, and all existing internal revenue taxes were repealed. While most protective tariffs were retained (and towards the end of Jefferson's administration even extended), the total revenues of the government were maintained at an average of 10 million dollars a year—including the proceeds from public sale of land acquired by the Louisiana Purchase. Partly as a result of cutting military appropriations from an average annual total of six million dollars to one million dollars, Jefferson was able to perform something of a fiscal miracle. In spite of the addition of 15 million dollars—the purchase price of the Louisiana Territory excluding interest charges—to the national debt, Jefferson was able to reduce the debt by more than one-third at the end of his eight years in office. He was able to do this by devoting almost half of his revenue to paying back the debt. At that time it was still possible to run the government of the United States on some six million dollars per year. Today, our defense costs alone come to some 39 *billion* dollars!

But budget figures can be misleading. Although Jefferson was able to reduce the debt and cut government expenditures, the role of the federal government in the nation's economic life actually increased. The Republicans, against the will of their leader, were forced to advocate policies which they had hitherto strenuously opposed. When the Louisiana Purchase Treaty was being debated, for example, it was the Republicans who upheld the "implied" power of the federal government to acquire territory, and the Federalists who suddenly became champions of states' rights and a "strict" interpretation of the Constitution.

Indeed, from the election of Jefferson to the close of the Civil War, the nation's history was to be marked by the slow transformation of a loose federation into a strong union. While this transformation was not to be accomplished without bloodshed and war, it was during this period that the economic, social and intellectual foundations of nationhood were being painfully created. And the administration of Jefferson played an important role in building those foundations.

Not only did his administration add vastly to the territory of the nation, but by a series of internal improvements Jefferson made possible a great increase in communication and trade among the states and, later, even in the territories. Without such improvements economic progress would have been much slower than it proved to be. When Jefferson came into power, the states did not have much more commercial or social intercourse with one another than prior to the Revolution. Postage was expensive with the lowest rate eight cents. Stagecoaches were slow (averaging about four miles an hour) and travel costs were relatively much higher than today. The few turnpikes which had been built by private companies collected exhorbitant tolls. Otherwise, roads were in bad repair and there were not nearly enough bridges or ferries. (However, a few canals had been built between 1790 and 1800 and investors were becoming increasingly interested in their financial possibilities.)

Again, Jefferson had to reverse himself and yield to the Federalist doctrine of "implied" powers, for nowhere in the Constitution was anything said about the government getting involved in internal improvements. But in his second administration, Jefferson approved large appropriations for the construction and maintenance of harbor facilities and lighthouses as well as a coastal survey, all to be paid for out of the tonnage revenues collected from ships.

If harbors were important to the Eastern communities, roads and internal waterway facilities were absolutely essential to the economic development of the West, where, incidentally, there were more good Republicans than in the Federalist stronghold of New England. In 1806, Jefferson ordered a survey for a "National Road" which was to run from Cumberland, Maryland to Wheeling, West Virginia on the upper Ohio. And in 1808, Jefferson's brilliant Secretary of the Treasury, Albert Gallatin, presented Congress with a detailed plan for a comprehensive system of communications to be built at national expense. Construction was to be spread over a period of 10 years and would cost an estimated two million dollars annually.

Ups and downs

Important as its achievements were, Jefferson's two-term-administration was marked by internal dissention in his party's ranks and external complications with the British government which would eventually lead to war. As a result, much of Jefferson's constructive contributions were to be dissipated. At the end of his first administration it was possible for

his Virginia colleague to say, without fear of contradiction by later historians, that "never was there an administration more brilliant than that of Mr. Jefferson up to this period." At the end of his second term, even his most ardent admirers would have found it difficult to make such a claim.

What had happened in the interval? For one thing, the Republican party had ceased to be a unified political movement. The free trade, laissez faire and pacifist policies of Jefferson were not popular in the West which continued to feel that its interests were being slighted in Washington in favor of the manufacturers and merchants of New England. They demanded similar protection and subsidies for themselves. In Henry Clay, they had, moreover, an eloquent and politically ambitious champion whose vision of the greater America of tomorrow extended well beyond Canada's borders. His War Hawks were a constant thorn in Jefferson's side.

More dangerous to the safety of the new nation were the activities of New England's Federalists. In 1804, when the Louisiana Purchase seemed to foreshadow an increase in the political weight of the South, leading New England Federalists plotted secession from the Union, but gave up when Hamilton refused to lend his name to the project. But when a Republican Congress, in 1807, decreed an embargo upon all American shipping bound for foreign ports in order to compel England and France to respect our neutral rights, New England opposition to the administration reached a critical stage. Although it was finally repealed, the Embargo Act caused great distress among New England merchants and shippers whose vessels lay idle and whose inventory was rotting in warehouses. It marked the prelude to a period of dissention which was not to be resolved even when the nation's survival was at stake in the War of 1812. ■

NEXT MONTH: the economic map before the great trek to the West

The disparity in the life span between males and females has made widowhood a major problem in human and economic terms

Widows in the American Economy

by Clara Eliot

THE MONUMENTS in old cemeteries very often tell the history of widowers who have survived more than one wife. But the situation today is very different. The widowers, even including the proportion of remarried widowers, are a minor fraction of the American population. At 70, only one man in five is a widower, while more than half of the women are widows.

In order to become a widow a woman must first become a wife. This obvious fact emphasizes a less obvious truism: that the young married woman has a much greater than 50 per cent chance of being a widow at 70, if she lives that long. Part of the proportion of women over 70 who are not widows is made up of women who have never married.

A great change has occurred in our mortality pattern since the years of pioneer hardships and unrestrained child-bearing. The American wife leads a healthy life in a healthy environment. The female very quickly overcomes the statistical handicap that puts a proportion of 105 males against 100 females into the world. The current life expectancy in the United States is 66.7 years for males and 72.9 years for females, a difference of more than six years.

The lead is increasing. In 1900 the life expectancy figures were 46.3 years for men and only two years more, 48.3, for women. If a woman reaches 65 today, she can expect to live for another 15.5 years against 12.9 for a man. The ratio of males to females in the age group above 65 was 102 in 1900 and 86.7 in 1955; it will fall to 72.6 in 1975. The probability of widowhood, moreover, is

increased by another statistical element: the average groom's three years of seniority over his bride.

The United States had about 7.5 million widows in 1955, including four million who were 65 or older. Four per cent of women between 35 and 44 are widows; 11 per cent between 45 and 54; 26 per cent between 55 and 64; and 55 per cent in the 65-or-older group. How can women prepare for this tragic and financially distressing probability? How can society make things easier for them?

Long-range measures require an attack on the diseases which lower the male life expectancy. But the wives themselves have a responsibility and an opportunity in preventing their husbands from killing themselves by strain and overwork. A woman, with a greater instinctive wisdom in handling human problems, can do much to help an often self-defeating spouse.

The half-million new widows every year face a hard budget problem. More than half of the widows in the 45-54 age group were heads of families or living independently. Of these, less than a fourth had annual incomes of 2,000 dollars. Why are the widows of the richest country in the world so poorly provided for?

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Support for the widow can come from three sources: private or social insurance, accumulated assets and her own earnings. Life insurance is becoming more and more necessary with the rising level of living and the greater dispersal of kin. Private insurance is more common, and the total amount of life policies in force today is more than 400 billion dollars in value, a fiftyfold increase since 1900. Widows received 1.5 billion dollars in death benefits paid in 1956.

But the average policy is small. Only one-fourth of the men have as much as 5,000 dollars in life insurance, and the average policy in 1956 was worth only 2,850 dollars on death. Taking account of inflation, the average real value of life policies has declined since 1930. Death benefits are thus only a temporary support for the bereaved.

The inadequacy of private insurance is not due to irresponsible males. Few men in their thirties with dependent families can afford more than 250 dollars a year for private insurance. The sum would provide only about 10,000 dollars of straight life insurance, with its advantages of a saving feature and other "living benefits." The same amount could buy 25,000 dollars worth of five-year renewable term insurance, but this has no cash value and

no value toward a retirement annuity. The insurance companies offer a useful compromise solution in their "family income" policies, which combine straight life and term features. These are particularly attractive to younger men, who must concentrate on present necessities to the disadvantage of future contingencies.

Social Security payments have taken over part of the total job. The provisions are complicated, but the widow with one child may receive between $45 and $162.80, depending on the amount of her late husband's income. The maximum for a widow with two dependent children is $200 per month. But a widow gets no benefits from the time her youngest child becomes 18 years old, until she reaches the age of 62.

Life pattern broken

The elderly widow receives from $30 to $81.40 on the basis of her husband's insured earnings. If she also worked in an insured job category, she can get up to $108.50 a month. The average monthly benefit paid to widows in 1955 was just short of $50, and 43 per cent of women 65 or over got some income from Social Security.

Many widows help themselves both financially and emotionally by taking jobs. Her life pattern broken, the widow can thus insure herself a healthy stability in the lonelier years. The problem can be difficult, but many women have solved it effectively. If a wife brought to her marriage the modern dowry of vocational training, she can more easily find a job. Even in the 55-64 age group, 27 per cent of the women were in the 1950 labor force, nine per cent more than in 1940. Personnel departments are learning that the older woman is superior to the young girl for many positions.

The woman should practice financial skills even in an excellently male-managed family economy. This means not only saving, for which the husband will be grateful, but also financial planning, conserving and investing. Does the wife know the present status of the family insurance, mortgage and other assets and liabilities? Financial arrangements should change with the changing conditions of the family. An adequate insurance program can depend on the wife's understanding of its importance so that the family budgeting can be properly proportioned.

The prudent wife should encourage the accumulation of assets. She will make life easier and perhaps longer for her husband if she has fostered the peace of mind and security that savings and other reserves provide. In the growing literature on the "gold-

en years," the focus is on the retired man. More emphasis should be placed on providing for his widow. Annuities, possibly bought with the insurance cash value, and good common stocks can act as buffers against both inflation and depression.

Vulnerable to exploitation

The wife can, however, be a good earner and saver, and still be badly equipped to deal with widowhood's financial problems. An acquaintance told me that his widowed sister had asked him to review her financial situation. She had been left in comfortable circumstances but hesitated to travel or otherwise expand her way of living. The examination showed that she had four times the means that she had supposed. Consider how vulnerable she would have been to exploitation by an unscrupulous adviser!

But don't most widows inherit so little that investment management is irrelevant? In the first place, the more interest the wife has in money matters, the more likelihood of a considerable accumulation of assets. Furthermore, the smaller the estate, the more important is its handling; a widow's wisdom can prevent the dissipation of a 10,000-dollar insurance benefit and use it effectively during the difficult adjustment period. It is true, moreover, that with the rising longevity curve, there are more and more couples who have available the chance to acquire substantial assets.

A 1956 survey found that women constitute more than half of the total number of stockholders with nearly half of the number of shares. More than one-third of these women were housewives or not employed. Many people lack the desire to learn the discipline of investment practices, but they can find help in the trust companies and professional investment advisers. It is much better to pay the fees and gain in terms of peace of mind and real financial security. A specialist can do a much better job than the average amateur.

Absorbed in domesticity

I work with women college students. Some are already married, and more get engaged or married every month. Some intend to take jobs until their husbands or fiancés finish professional training. Others will be promptly absorbed in domesticity. But most of them will be living and widowed by the year 2000. Will they be better or worse off than today's widows? Will they look to the welfare state for their security? With the working lifetime getting shorter, will they place too great a burden on the econ-

omy? Will they see the disintegration of their security in the increasing effects of inflation?

The worst way of dealing with the problem of widowhood is to ignore it. A refusal to face it on the excuse that the thought is morbid can be as harmful as it is dishonest. Concern with possible widowhood is surely not morbid; life must deal with many unpleasantnesses, and death is an ineluctable reality.

In the old days, the adjective "poor" belonged with the noun "widow" in an indissoluble union. The death of the husband meant that the family had to depend on more or less benevolent relatives. Children were taken into other homes and frequently had to begin working at an early age. The novels of the past derive many of their plot complications from such tragedies.

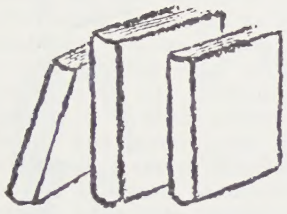
Today, despite our concern about the breakdown of the family, a larger proportion of families keep both parents until the children are at least in their teens. The problems of the modern widow are somewhat different. She may have a much larger estate to manage; she may be trying desperately to continue giving her children the things they enjoyed when her husband was alive. The problem of poverty remains as vigorous and more complicated than ever.

It is impossible for the modern woman and her society to provide for all the disasters and answer all the questions. In any case, the problem gets entangled in our greatest economic and political issues. But the time to take thought is now, not only for possible candidates for widowhood, but for their husbands and for all of us. It is an irony of the encouraging statistics on longevity that the problem of widows has become so pressing. ■

Answers to Challenge Quiz

(See page 79)

(1) False *(see page 49)*
(2) False *(see page 18)*
(3) True *(see page 23)*
(4) True *(see page 72)*
(5) True *(see page 27)*
(6) False *(see page 54)*
(7) True *(see page 62)*
(8) False *(see page 13)*
(9) True *(see page 8)*
(10) False *(see page 36)*
(11) False *(see page 67)*
(12) False *(see page 42)*



READING REPORT

Effecting Change in Large Organizations. Eli Ginzberg and Ewing W. Reilley. 155 pp. New York: Columbia University Press. $3.50.

•Administration is based on a very few mechanical principles and badly plotted psychology. The authors have ably enough maneuvered the principles and their psychology is sound, but a book on administration illustrates the necessity for going into apparent irrelevancies. The book says that our changing economy requires change in business organizations and that this change should be carefully planned; such wisdom can be found elsewhere. The authors might have permitted themselves the risk of bigger thoughts about the economic and social context that surrounds the simple verities of business administration. One new idea would have justified possible errors.

* * *

Brainstorming. Charles H. Clark. 262 pp. New York: Doubleday. $4.50.

•Unfortunately, brainstorming does work. It is a simple process: a group of account executives trying to improve a promotion plan or engineers seeking an answer to a problem of metal stress discuss their problem in a loose, uncritical way that encourages imaginative leaps. But the author's imagination has been so thoroughly conditioned by the technique that his critical faculty remains vestigal. The truly good ideas he lists, and the greater ones he does not, were all developed by solitary ruminators. Brainstorming is better than no thinking at all, but organizations placing an excessive dependence on will discover that they have organized thought within the frame of mediocrity.

* * *

The Opium of the Intellectuals. Raymond Aron. 324 pp. New York: Doubleday. $4.50.

•Raymond Aron has in common with Alexis de Tocqueville and almost no other French thinker the ability to be objective about French thought. Aron launches himself against the most formidable body of intellectuals in the world, by demonstrating how his country's thinkers prefer the chic conformity of radical slogans to an individualism of thought that could be more typically French. Thus, Aron investigates the fashionable dogma that the proletariat is the ultimate citizen of a Marxist world. The fact that no self-proclaimed leaders of the masses are proletarians, and that the modern world requires more and more hierarchical organization, substantiates his realistic doubts. This approach sets Aron, a political science pro-

fessor and newspaper polemicist, apart from his fellows, who remain frozen in more traditional thought patterns.

* * *

Man on Your Back. Wyatt Marrs. 289 pp. Norman: University of Oklahoma Press. $3.95.

•Marrs has usefully enough classified society's parasites into the dependent charity cases, the predatory criminals and the entrenched-in-wealth. But his philosophy and definitions were determined by Henry George, Thorstein Veblen and other pre-World War I viewers-with-alarm, and he bravely pairs the lady and the prostitute as sisters-in-parasitism. If entrancingly wrong-headed, such an approach could lead to worthwhile insights. Unfortunately, Marrs lacks originality and his iconoclasm consists in substituting an outdated heresy for traditional beliefs that have survived the niggling of many millenia. It is distressing that a university professor should have so litt'e concern for culture that there is no room in his energetic society for the lady who goes to the opera or the man who buys a Picasso. How would this professor of sociology classify a professor of Greek?

* * *

Rich Lands and Poor. Gunnar Myrdal. 168 pp. New York: Harper & Brothers. $3.00.

•Dr. Myrdal, an internationally renowned economist who was, until recently, Executive Secretary of the UN Economic Commission in Europe, clearly knows whereof he speaks. In this brief but commendably lucid book, Dr. Myrdal explains in layman's language why rich nations are getting richer and poor countries poorer. In economic life, he points out, "them as has, gits." Those who, like the underdeveloped countries of the world, have nothing, find it almost impossible to break loose from the vicious circle of no capital, no trained labor force, and no effective economic demand. A real increase in these countries' living standards simply cannot be accomplished, Dr. Myrdal believes, unless and until highly developed countries provide the extensive aid that will be required to break this vicious circle. But Dr. Myrdal is not optimistic about the willingness of developed countries to make such sacrifices. Nor does he make any concrete suggestions about the kind of aid that would be required—or, even more important, how such aid must be used if it is to be effective.

* * *

Democracy versus Communism. Kenneth Colgrove. 424 pp. Princeton: D. Van Nostrand, Inc.

•The author, with the assistance of an able editor, Hall Bartlett, and the expert advice of leading scholars, has tried very hard to produce a truly informative "propaganda" work. And, what is even more surprising, he has succeeded. Of course, *Democracy versus Communism* is not "objective"—the authors make it very plain that they are for democracy and against communism. But they have done very little oversimplifying or special pleading. As a result, their indictment of communism is all the more convincing. The Institute of Fiscal and Political Education, which sponsored the project has rendered a real service with this book which is a welcome relief from the Madison Avenue approach which pervades so much "propaganda" writing. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 76.

(1) Lower depreciation allowances have been a factor in increasing industrial expenditures on modernization.

True ☐ **False** ☐

(2) The American Bankers Association has suggested a minimum cash reserve of 15 per cent for members of the Federal Reserve System.

True ☐ **False** ☐

(3) The states have been reluctant to allow railroads to discontinue certain unprofitable passenger services.

True ☐ **False** ☐

(4) The majority of American stockholders are women.

True ☐ **False** ☐

(5) More than 70 per cent of consumer durable goods are purchased on installment.

True ☐ **False** ☐

(6) Lord Beveridge attributes the success of his "plan" to inflation.

True ☐ **False** ☐

(7) U. S. Steel's share of the steel industry's total sales has declined.

True ☐ **False** ☐

(8) Interstate branch banking has received favorable legislative support.

True ☐ **False** ☐

(9) West Germany invests a greater percentage of its gross national product in capital goods than the U.S.

True ☐ **False** ☐

(10) The main reason for low wages in the South is the weakness of organized labor.

True ☐ **False** ☐

(11) At the end of Jefferson's administration, the national debt had substantially increased.

True ☐ **False** ☐

(12) In recent years, many college loan funds have been virtually exhausted.

True ☐ **False** ☐

DEPT. of BETTER MOUSETRAPS

Children's Corner: A magic designer that makes endless paper patterns by a slight twist of its handle . . . A mechanical pitching machine that provides junior with a remote control batting practice device; he can control the speed of each pitch, either outdoors or indoors . . . A miniature jet plane that is launched into the air by the shot of a gun and then ejects a parachute . . . A ballerina that pirouettes and dances on a revolving base; when her ballet is over, she leaps off the base to do back bends and splits.

* * *

Around the House: *Not the Dead Sea Scrolls, but toilet tissue that spins out amusing sayings . . . A solar clock that is operated by light from the sun or an incandescent lamp; it requires no other power source and can function in darkness for one year on stored energy . . . A liquid rubber rug coating that prevents skidding and stops fraying . . . Magnetic pot holders that eliminate the need for hooks by clinging to anything made of steel . . . A hand sewing machine that sews all basic stitches with light finger pressure.*

* * *

From the World of Industry: A pavement breaker that has a thick-jacket muffler to reduce the intensity of the noise . . . A water filter that frees water of sand, rust, lime, iron and microscopic impurities when mounted on main pipe . . . A portable oscilloscope that measures electrical pulse designs—very handy for laboratory . . . A mobile scaffold that can be raised or lowered by an electrically powered hydraulic pump . . . A carbon typewriter ribbon that produces print-quality typing that is smudge-free . . . An automatic trenching machine that cuts rapidly through hard ground to form small trenches; it is used in the laying of plastic pipe and cable.

* * *

At the Corner Bank: *A robot cashier that accepts a dollar bill and makes change automatically . . . An electrical bank-note counter that counts bank notes at the rate of 16 per second . . . A numbering machine that prints special code markings instead of conventional numbers; these markings are placed on checks which can then be used in electronic data processing.*

* * *

Infant Items: A baby bottle with a built-in thermometer that indicates the exact safe nursing temperature . . . For mothers with aching muscles, a bassinet that automatically takes care of soothing petulant infants.

* * *

Personal Business: *A nylon button that fastens to clothing without thread . . . Washable slippers that stretch to fit the foot and make you feel as if you're barefoot . . . A miniature radio that is built inside a pocket-size mechanical pencil . . . A plaid shoulder or hand-strap lunch bag with rubberized interior for protection and maintenance. . . A brush that removes callouses, corns and dead skin.*

* * *

Write to CHALLENGE Magazine for additional information. ■